

# SINGLE AUDIT REPORT

FISCAL YEAR ENDED JUNE 30, 2009

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Comb. Rpt.  
3/5/10

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# **CITY OF OAKLAND**

## **SINGLE AUDIT REPORT**

### **PROJECT TEAM**

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Community & Economic Development Agency

City Attorney's Office

Fire Services  
Human Services



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SACRAMENTO

WALNUT CREEK

LOS ANGELES

NEWPORT BEACH

SAN DIEGO

Honorable Mayor and Members  
of the City Council  
City of Oakland, California

### **Independent Auditor's Report**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Oakland, California (City), as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the Oakland Redevelopment Agency (ORA) whose financial activities are included in the City's basic financial statements as a major fund, which represent 30%, 41% and 17% of the assets, net assets, and revenues of the governmental activities, respectively, as of and for the year ended June 30, 2009. The ORA financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as it relates to the amounts included for the ORA, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of June 30, 2009, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 18 to the basic financial statements, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, effective July 1, 2008.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2009, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, the schedules of funding progress and the budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The schedule of expenditures of federal awards, supplemental schedules of revenue and expenditures prepared by the City's Community Services Department, and supplemental schedule of expenditures of Alameda County Awards are presented for purposes of additional analysis as required by U.S. Office of Management and Budget (OMB) Circular A-133, the State of California Department of Community Service and Development, and the County of Alameda, respectively, and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Macias Gini & Connell LLP*

Certified Public Accountants

Oakland, California

November 25, 2009

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Oakland's (the City) Comprehensive Annual Financial Report presents a narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2009. We encourage readers to consider the information presented here in conjunction with the additional information contained in the City's financial statements and related notes and our letter of transmittal that precedes this section.

### FINANCIAL HIGHLIGHTS

- The City's total assets exceeded its total liabilities by \$754.0 million as of June 30, 2009, compared to \$740.4 million at June 30, 2008. This represents a net increase of \$13.6 million or 1.8 percent compared to the previous year. Assets decreased by 1.3 percent or net of \$38.5 million, the net decrease is primarily attributed to a decrease of net pension assets in the amount of \$31.5 million to reflect annual pension cost, an increase in capital assets by \$39.3 million and an offset of a combined decrease of \$99.6 million in pooled and restricted cash and investments attributable to spending bond proceeds for capital improvement. Conversely, liabilities decreased by 2.4 percent or \$52.1 million compared to the prior fiscal year primarily as a result of principal debt payments, restructuring and retirement of certain long-term debt.
- The City's governmental cumulative fund balances decreased by 7.0 percent or \$81 million to \$1,076.3 million compared to \$1,157.3 million for the prior fiscal year. This decrease is primarily attributed to a \$24.6 million or 2.3 percent increase in overall governmental expenditures for its operations and a \$15.9 million or 1.6 percent the decrease in overall governmental revenue.
- As of June 30, 2009, the City had total long-term obligations outstanding of \$1.97 billion compared to \$2.02 billion outstanding for the prior fiscal year for a decrease of 2.3 percent or \$45.9 million. Of this amount, \$317.2 million is general obligation bonds backed by the full faith and credit of the City. The remaining \$1.65 billion is comprised of various long-term debt instruments including accruals of year-end estimates for other long-term liabilities.
- The City's General Fund unreserved/undesignated fund balance at June 30, 2009 was \$40.7 million compared to \$37.5 million for the previous year, an increase of 8.5 percent or \$3.2 million. The unreserved/undesignated fund balance met the requirements of the City Council's 7.5% reserve policy based on the total General Fund expenditures for fiscal year 2009.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to introduce the City's basic financial statements. The City's basic financial statements consist of four components:

- Government-wide Financial Statements
- Fund Financial Statements
- Notes to the Basic Financial Statements
- Required Supplemental Information

In addition, this report also contains other supplementary information.

### Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to the financial statements for a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether or not the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, such as revenues pertaining to uncollected taxes and expenses pertaining to earned but unused vacation and sick leave.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, life enrichment, community and economic development, and public works. The business-type activities of the City include the sewer service system and the parks and recreation.

### Fund Financial Statements

The fund financial statements are designed to report information about groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-



related legal requirements. All of the funds of the City can be divided into the following three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are reported in governmental funds. However, unlike the government-wide financial statements, governmental fund financial statements focus on the near-term inflows and outflows of spendable resources, as well as on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains several individual governmental funds organized according to their type (special revenue, capital projects, debt service, and general fund). Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, federal and state grant special revenue fund, Oakland Redevelopment Agency (Agency) as a blended component unit of the City, and municipal capital improvement fund, all of which are considered to be major funds. Data from the remaining funds are combined in a single, aggregated presentation. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund in the required supplementary information to demonstrate compliance with this budget.

**Proprietary funds.** Proprietary funds are generally used to account for services for which the City charges customers, either outside customers or internal units or departments of the City. Proprietary funds provide the same type of information shown in the government-wide statements only in more detail. The City maintains the following two types of proprietary funds:

**Enterprise funds** are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for the operations of the Sewer Service System and the Parks and Recreation operations. The Sewer Service Fund is considered to be a major fund of the City.

***Internal service funds*** are used to report activities that provide services and supplies for certain City programs and activities. The City uses internal service funds to account for its fleet of vehicles, radio and communication equipment, facilities management, printing and reproduction, and central stores. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements. The internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

***Fiduciary funds.*** Fiduciary funds are used to account for resources held for the benefit of employees and parties outside the City. The Oakland Municipal Employees Retirement System (OMERS) Fund and the Police and Fire Retirement System (PFRS) Fund are reported as pension trust funds. The private purpose trust fund along with the private pension trust fund are reported as trust funds since their resources are not available to support the City's own programs. For this reason, they are not reflected in the government-wide financial statements. The accounting used for fiduciary funds is much like that used for proprietary funds.

#### **Notes to the Basic Financial Statements**

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

#### **Required Supplementary Information**

The required supplementary information includes the budgetary schedule for the General Fund and schedules of funding progress for pension and other postemployment benefits that show the City's progress towards funding its obligation to provide future pension and other postemployment benefits for its active and retired employees.

#### **Other Information**

In addition, this report presents combining statements referred to earlier in connection with nonmajor governmental funds, internal service funds, and fiduciary funds are immediately following the required supplementary information along with budgetary comparison schedules.

## Government-wide Financial Analysis

Net assets may serve over time as a useful indicator of the City's financial position. The City's total assets exceeded its liabilities as of June 30, 2009 by \$754.0 million compared to \$740.4 million as of June 30, 2008, an increase of \$13.6 million. The largest portion of the City's net assets, 73.8 percent, reflects its investment in capital assets of \$556.8 million for governmental and business-type activities net of related debt. Of the remaining balance, 44.9 percent reflects \$338.5 million in resources that are subject to external restrictions on how they may be used. The net deficit of \$141.3 million is primarily attributed to a decrease of annual pension cost of \$31.5 million as of June 30, 2009 offset by a 2.4 percent decrease in ongoing project expenditures related to governmental activities and a 0.4 percent increase in revenues.

### City of Oakland's Net Assets June 30, 2009 (In Thousands)

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
<b>Assets:</b>						
Current and other assets	\$ 1,791,971	\$ 1,866,790	\$ 37,789	\$ 40,808	\$ 1,829,760	\$ 1,907,598
Capital assets	930,838	899,317	153,513	145,731	1,084,351	1,045,048
<b>TOTAL ASSETS</b>	<b>2,722,809</b>	<b>2,766,107</b>	<b>191,302</b>	<b>186,539</b>	<b>2,914,111</b>	<b>2,952,646</b>
<b>Long-term liabilities</b>	<b>1,908,258</b>	<b>1,951,568</b>	<b>60,987</b>	<b>63,541</b>	<b>1,969,245</b>	<b>2,015,109</b>
Other liabilities	189,575	193,721	1,317	3,386	190,892	197,107
<b>TOTAL LIABILITIES</b>	<b>2,097,833</b>	<b>2,145,289</b>	<b>62,304</b>	<b>66,927</b>	<b>2,160,137</b>	<b>2,212,216</b>
<b>Net assets:</b>						
Invested in capital assets, net of related debt	442,793	401,881	113,961	111,881	556,754	513,762
Restricted	338,514	336,908	-	-	338,514	336,908
Unrestricted (deficit)	(156,331)	(117,971)	15,037	7,731	(141,294)	(110,240)
<b>Total net assets</b>	<b>\$ 624,976</b>	<b>\$ 620,818</b>	<b>\$ 128,998</b>	<b>\$ 119,612</b>	<b>\$ 753,974</b>	<b>\$ 740,430</b>

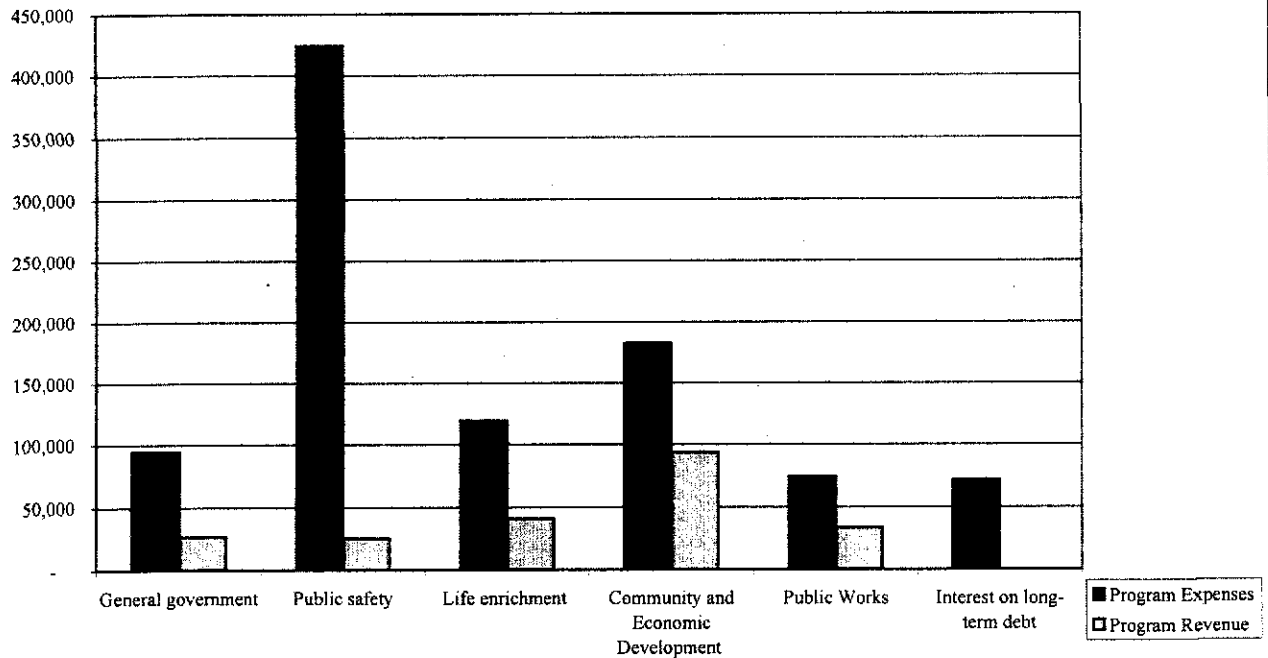
**Governmental activities.** The City's change in net assets of \$4.2 million for the year ended June 30, 2009 compared to a deficit of \$19.0 million for the previous fiscal year represents a net increase of \$23.2 million. The key elements of this increase are listed below.

**Changes in Net Assets**  
**For the Year Ended June 30, 2009**  
*(In Thousands)*

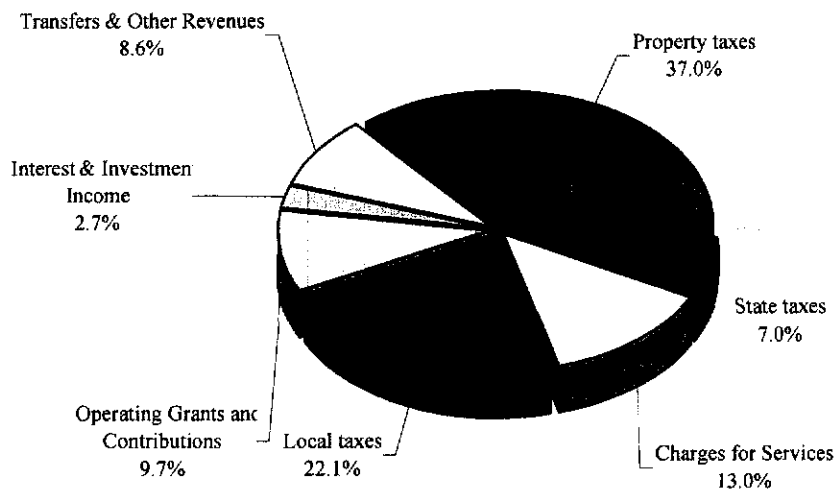
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
<b>Revenues:</b>						
Program revenues:						
Charges for services (1)	\$ 126,055	\$ 129,615	\$ 36,178	\$ 33,751	\$ 162,233	\$ 163,366
Operating grants and contributions	94,353	91,278	-	-	94,353	91,278
General revenues:						
Property taxes	359,851	358,338	-	-	359,851	358,338
State taxes:						
Sales and use taxes	56,090	64,812	-	-	56,090	64,812
Motor vehicles in-lieu tax	1,282	1,811	-	-	1,282	1,811
Gas tax	10,270	7,305	-	-	10,270	7,305
Local taxes:						
Business license	54,291	52,542	-	-	54,291	52,542
Utility consumption	52,701	52,524	-	-	52,701	52,524
Real estate transfer	34,267	36,205	-	-	34,267	36,205
Transient occupancy	10,599	12,400	-	-	10,599	12,400
Parking	14,196	15,747	-	-	14,196	15,747
Voter approved special tax	33,772	32,942	-	-	33,772	32,942
Franchise	14,440	13,791	-	-	14,440	13,791
Interest and investment income	25,917	47,852	590	1,434	26,507	49,286
Other	81,885	50,153	-	-	81,885	50,153
Total revenues	<u>969,969</u>	<u>967,315</u>	<u>36,768</u>	<u>35,185</u>	<u>1,006,737</u>	<u>1,002,500</u>
<b>Expenses:</b>						
General government	94,957	102,218	-	-	94,957	102,218
Public safety	424,435	412,050	-	-	424,435	412,050
Life enrichment	119,659	115,315	-	-	119,659	115,315
Community & economic development	182,327	203,406	-	-	182,327	203,406
Public works	74,081	79,348	-	-	74,081	79,348
Interest on long-term debt	71,552	74,545	-	-	71,552	74,545
Sewer	-	-	25,530	30,502	25,530	30,502
Parks and recreation	-	-	652	384	652	384
Total expenses	<u>967,011</u>	<u>986,882</u>	<u>26,182</u>	<u>30,886</u>	<u>993,193</u>	<u>1,017,768</u>
Change in net assets before transfers	2,958	(19,567)	10,586	4,299	13,544	(15,268)
Transfers	1,200	600	(1,200)	(600)	-	-
Change in net assets	<u>4,158</u>	<u>(18,967)</u>	<u>9,386</u>	<u>3,699</u>	<u>13,544</u>	<u>(15,268)</u>
Net assets at beginning of year	620,818	639,785	119,612	115,913	740,430	755,698
Net assets at end of year	<u>\$ 624,976</u>	<u>\$ 620,818</u>	<u>\$ 128,998</u>	<u>\$ 119,612</u>	<u>\$ 753,974</u>	<u>\$ 740,430</u>

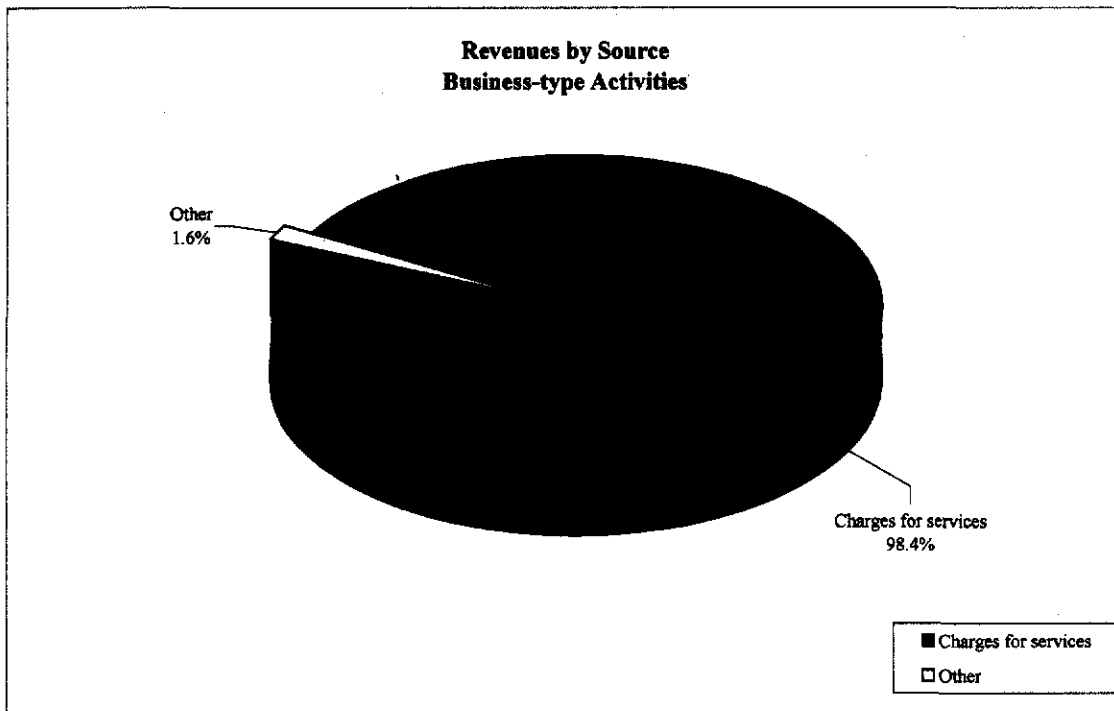
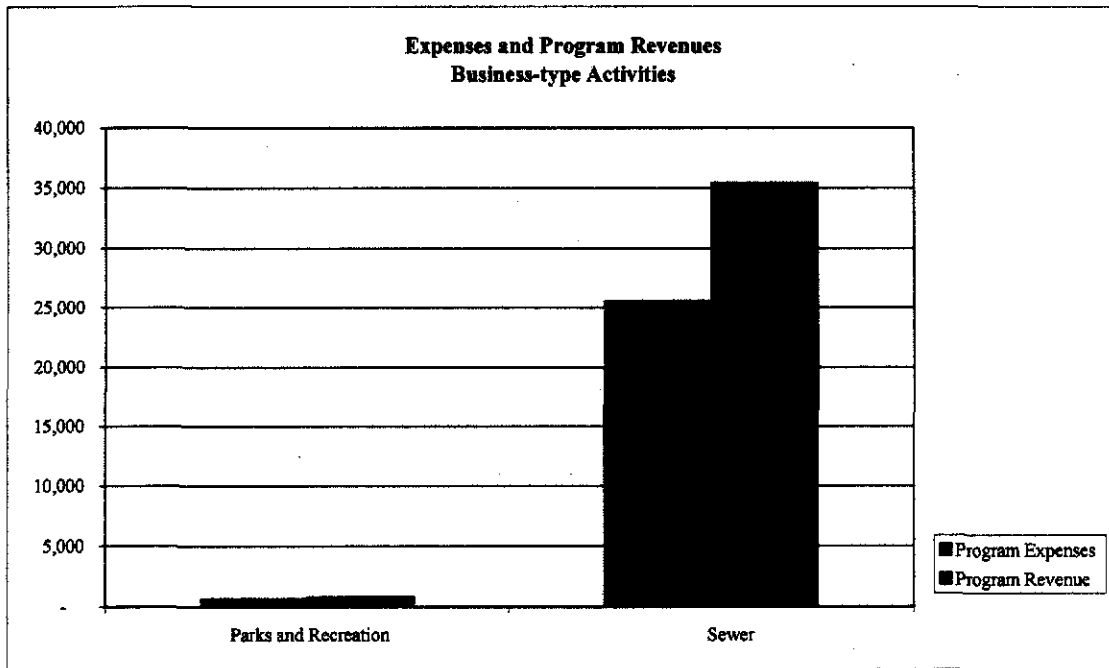
(1) License and Permits are reported in the charges for services of program revenue in FY 2009 and 2008.

### Expenses and Program Revenues Governmental Activities



### Revenues by Sources Governmental Activities





**Governmental activities:** Net assets for governmental activities increased by \$4.2 million or 0.7 percent during 2008-09 from \$620.8 million to \$625.0 million. Total revenue increased at rate of 0.3 percent compared to expenses decreased at a rate of 2.0 percent. During 2007-08, revenues decreased at a rate of 1.3 percent and expenses increased at rates of 8.4 percent, respectively.

Changes in net assets for governmental activities are attributed to the following significant elements:

- Contributing to the increase in total revenue; other revenues experience an aggregate increase of \$31.7 million or 63.3 percent, this is mainly due to increases in fines and penalties and annuity income; the increases are offset by decrease in state taxes by \$6.3 million or 8.5 percent primarily due to a sluggish economy. Investment income also decreased by \$21.9 million or 45.8 percent due to earned interest yield reflects a lower interest rate environment experienced during the year.
- General government expenses decreased by \$7.3 million or 7.1 percent when compared to previous year primarily due to budgets cuts, layoffs and furlough days.
- Public safety expenses increased by \$12.4 million or 3.0 percent when compared to the previous year due primarily to negotiated overtime spending, higher wages, pension, and health care and other benefit costs.
- Life enrichment expenses increased by \$4.3 million or 3.8 percent primarily due to increased expenditures in the Kid's First program.
- Community and economic development expenses decreased by \$21.1 million or 10.4 percent is attributed to budgets cuts, layoffs and furlough days.
- Public work expenses decreased by \$5.3 million or 6.6 percent is attributed to the reduction of expenditures in the Lighting & Landscape Assessment District (LLAD) and on-going construction improvement projects due to a slowdown in construction projects.
- Interest on long-term debt decreased by \$3.0 million or 4.0 percent due to City debt payments and restructuring and retirement of certain long-term debt.

**Business-type activities:** Business-type activities ended the fiscal year with a positive change in its net assets of \$9.4 million compared to \$3.7 million the previous fiscal year. The increase of \$5.7 million in net assets is attributable to \$2.2 million or 6.6 percent increase in sewer revenues offset by \$5.0 million or 16.3 percent decrease in sewer project related expenses.

## **Financial Analysis of the Government's Funds**

**Governmental funds:** The focus of City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

**General Fund:** The General Fund is the chief operating fund of the City. At June 30, 2009, its unreserved fund balance is \$120.4 million or 50.8 percent of the \$236.9 million total General Fund balance.

In 2008-09, General Fund revenues of \$533.1 million were \$8.7 million or 1.6 percent lower than 2007-08 revenues of \$541.7 million. Due to a slowing economy and sluggish housing market, the revenues have decreased modestly over last year. The current year decrease is due primarily to decreases in sales and use tax revenue of \$7.0 million, investment income of \$5.6 million, and property tax revenue of \$2.9 million, offset by a slight increase in annuity income of \$2.9 million and \$4.2 million in fines and penalties.

In 2008-09, General Fund expenditures of \$473.0 million were \$15.5 million or 3.2 percent lower than 2007-08 expenditures of \$488.5 million. The decrease in expenditures was mainly due to \$6.3 million decrease in capital outlay, \$6.4 million decrease in non departmental expenditures, and most City Agencies reporting decreases in expenditures, offset by an increase in public safety of \$6.8 million because of salaries, pension, health care and other benefit costs.

**Federal and State Grant Fund:** The Federal and State Grant Fund had a fund balance of \$18.6 million as of June 30, 2009 that represents an increase of \$1.2 million or 7.2 percent over the prior fiscal year. The net increase was primarily attributed to \$3.6 million received from the State for Proposition 42, *Transportation Congestion Improvement Act* derived from the state motor vehicle fuel sales tax revenues and transportation improvement funding.

**Oakland Redevelopment Agency:** The Oakland Redevelopment Agency had a fund balance of \$616.1 million as of June 30, 2009 that represents an increase of \$17.3 million or 2.9 percent over the prior fiscal year. The net increase of \$17.3 million was primarily attributed to \$9.7 million increase in tax increment and a \$10.8 million settlement from California Department of Transportation (Caltrans) for the use of 26 acres of land in the West Gateway portion of the former Oakland Army Base. These increases were offset by increased project expenditures of \$12.8 million and a decrease of \$2.9 million in rents and other reimbursements revenues.

**Municipal Capital Improvement Fund:** The Municipal Capital Improvement Fund had a fund balance of \$42.0 million as of June 30, 2009 that represents a decrease of \$26.5 million or 38.7 percent over the prior fiscal year. The net decrease of \$26.5 million is attributed to an increase in capital improvement projects expenditures.



**Proprietary Funds:** The City's proprietary funds provide the same type of information found in the government-wide financial statements under the *business-type* column but in more detail.

The portion of net assets invested in capital assets, net of related debt amounted to \$114.0 million as of June 30, 2009, compared to \$111.9 million for the previous fiscal year. The \$2.1 million or 1.8 percent increase is related to proceeds spent from debt issued to finance sewer projects. During the fiscal year, the City capitalized \$7.0 million in sewer system completed projects, net of depreciation.

### **General Fund Budgetary Highlights**

During the fiscal year ended June 30, 2009, General Fund had a \$24.3 million decrease in budgeted revenues between the original and final amended operating budget. The decrease is due to a slow economy and the City budget was revised in Mid-November of 2008 to reflect shortfalls in revenues from various funding sources. Actual budgetary basis revenues of \$532.6 million were \$4.1 million more than the final amended budget. The increase is due primarily to increased property tax and real estate transfer tax revenues.

In addition, there was a \$7.3 million increase in appropriations between the original and final amended operating budget for the General Fund. The increase in appropriation is due primarily to the determination of actual project carryforwards for continuing appropriations for various multi-year projects, capital improvement projects, and other projects authorized by the City Council. The original approved expenditure budget contained only estimates of project carryforwards.

Actual budgetary basis expenditures of \$473 million were \$7.6 million less than the amended budget. The net budget savings is attributed to (1) general budget cuts, (2) layoffs, and (3) furlough days.

### **Capital Assets**

The City's capital assets, net of depreciation, totaled \$1,084.4 million as of June 30, 2009 compared to \$1,045.0 million as of June 30, 2008, an increase of \$39.3 million or 3.8 percent. Governmental activities additions of \$80.8 million in capital assets included construction in progress and capitalization of infrastructure, facilities and improvements, and furniture, machinery and equipment which met the City's threshold for capitalization.

These additions were offset by retirements and depreciation, the net effect of which was an increase of \$33.1 million in additions against capital assets for governmental activities. Business activities, primarily the sewer fund, increased its capital assets by \$7.8 million, net of retirements and depreciation. See Note (7) for more details in capital assets.

### Construction Commitments

The City has committed to funding in the amount of \$139,601,396 to a number of capital improvement projects for fiscal year 2010 through fiscal year 2012. This projects include building and facilities improvements; parks and open space; sewers and storm drains; streets and sidewalks construction; technology enhancements and traffic improvements. See note 18 for more details in construction commitments.

### Debt Administration

At the end of the current fiscal year, the City's debt limit (3.75 percent of property valuation, net of exemptions subject to taxation) was \$1,156.8 million. The total amount of debt applicable to the debt limit was \$317.2 million. The resulting legal debt margin was \$839.6 million.

The City of Oakland's underlying ratings for its general obligation bonds remained unchanged from last year; as of June 30, 2009, the rating were as follows:

Standard and Poor's Corporation	AA-
Moody's Investors Services, Inc	A1
Fitch, JBCA, Inc	A+

Agency bond ratings as of June 30, 2009 were as follows:

	Moody's	Standard & Poors	Fitch, JBCA
Tax allocation bonds	A3	A-	N/A
Housing set-aside revenue bonds	A2	A	A

As of June 30, 2009, the City had total long-term obligations outstanding of \$1.97 billion compared to \$2.02 billion outstanding for the prior fiscal year, a decrease of 2.3 percent. Of this amount, \$317.2 million is general obligation bonds backed by the full faith and credit of the City. The remaining \$1.65 billion is comprised of various long-term debt instruments listed below including accruals of year-end estimates for other long-term liabilities.

**Outstanding Debt**  
**June 30, 2009**  
*(In Thousands)*

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Totals</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
General obligation bonds	\$ 317,188	\$ 331,528	\$ -	\$ -	\$ 317,188	\$ 331,528
Tax allocation, Housing and Other bonds	505,765	496,630	-	-	505,765	496,630
Certificate of participation	10,375	40,495	-	-	10,375	40,495
Lease revenue bonds	296,985	323,340	-	-	296,985	323,340
Pension obligation bonds	248,455	282,705	-	-	248,455	282,705
Special assessment debt with government commitments	5,645	6,200	-	-	5,645	6,200
Accreted interest on appreciation bonds	148,580	125,743	-	-	148,580	125,743
Sewer-bonds & notes payable	-	-	58,630	61,066	58,630	61,066
Less: deferred amounts						
Bond issuance premiums	28,691	32,204	2,357	2,475	31,048	34,679
Bond refunding loss	(30,858)	(34,658)	-	-	(30,858)	(34,658)
Total Bonds Payable	1,530,826	1,604,187	60,987	63,541	1,591,813	1,667,728
Notes & Leases payable	40,845	46,013	-	-	40,845	46,013
Other long-term liabilities	336,587	301,368	-	-	336,587	301,368
Total Outstanding Debt	<u>\$ 1,908,258</u>	<u>\$ 1,951,568</u>	<u>\$ 60,987</u>	<u>\$ 63,541</u>	<u>\$ 1,969,245</u>	<u>\$ 2,015,109</u>

The City's overall total long-term obligations decreased by \$45.9 million compared to fiscal year 2008. The net decrease is primarily attributable to the City debt principal payments and restructuring and retirement of certain long-term debt offset by new Agency debt of \$38.8 million.

## **Summary of New Debt:**

### ***Current Year Long-Term Debt Financing***

*Central District Redevelopment Project, Subordinated Tax Allocation Bonds, Series 2009T (Taxable):* On May 6, 2009, the Redevelopment Agency of the City issued \$38,755,000 of the above mentioned bond issue to finance certain redevelopment activities within or to the benefit of the Central District Redevelopment Project Area. The bonds are limited obligations of the Agency payable solely from and secured solely by tax revenues, consisting primarily of tax increment derived from property, in the Central District Redevelopment Project Area.

*Master Lease – Sun Microsystems, Inc.:* On February 26, 2009, the City closed a lease transaction with Sun Microsystems, Inc. in the amount of \$1,472,891 for the purpose of financing certain hardware, equipment and software. The financing structure was taxable for services and tax-exempt for equipment.

### ***Restructuring of Long-Term Debt***

*Central District Redevelopment Project, Subordinated Tax Allocation Bonds, Series 2005:* On March 23, 2009, the Redevelopment Agency of the City utilized unused proceeds of the Central District Redevelopment Project Subordinated Tax Allocation Bonds, Series 2005 to purchase and tender the outstanding bonds with maturity date of September 1, 2022 and September 1, 2020 in the amount of \$11,190,000 and \$1,200,000, respectively. After the tendering and cancellation of the bonds with trustee, \$31,970,000 remains outstanding as of June 30, 2009.

*Certificate of Participation (Certain Capital Improvement Project):* On June 1, 2009, the City called full redemption of the outstanding bond issue Variable Rate Demand Certificate of Participation (Certain Capital Improvement Project) totaling \$24,500,000 in outstanding principal amount. These bonds are completely retired.

Additional information on the City's long-term debt obligations can be found in Note 12 to the financial statements.

### **Economic Factors and Next Year's Budgets and Tax Rates**

The economic indicators highlighted below, among others and including labor union contracts, were factored into the City's budget formulation process as they relate to revenue forecasting, program planning, and resource allocation for fiscal years 2010-11.

Sluggish growth is projected in fiscal years 2010-11 for the City's major revenues including property tax, sales tax, vehicle license fees, business license tax, real estate transfer tax, and parking tax, due to uncertainties brought about by the continuing housing recession, the increase in home foreclosures, and tightened lending policies. The remaining areas, while impacted by overall economic performance, are driven by other factors, for

example, franchise fee is typically more heavily impacted by rate changes than economic growth.

The fiscal years 2010-11 budget focuses on the Mayor and City Council priorities, directing resources toward essential services such as public safety; sustainable and healthy environment; economic development; community involvement and empowerment; public-private partnerships and government solvency and transparency. To meet these priorities, the City Council approved a balanced General Fund budget for fiscal year 2010-11, closing a funding gap of approximately \$83 million primarily with ongoing reductions and fee increases combined with the strategic use of reserves and other one-time revenue sources.

On July 24, 2009, the State Legislature passed Assembly Bill (AB) 26 4x, which requires redevelopment agencies statewide to deposit a total of \$2.05 billion of property tax increment in county "Supplemental" Educational Revenue Augmentation Funds (SERAF) to be distributed to meet the State's Proposition 98 obligations to schools. The SERAF revenue shift of \$2.05 billion will be made over two years, \$1.7 billion in fiscal year 2009-2010 and \$350 million in fiscal year 2010-2011. The Agency's share of this revenue shift is approximately \$41,074,866 in fiscal year 2009-2010 and \$8,497,000 in fiscal year 2010-2011. Payments are to be made by May 10 of each respective fiscal year. Further information regarding the City's response and SERAF impact is contained in the subsequent events footnote (21) to the basic financial statements.

The City of Oakland's unemployment rate increased to 17.1% in June 2009 compared to an average unemployment rate of 9.6% for July 2008.

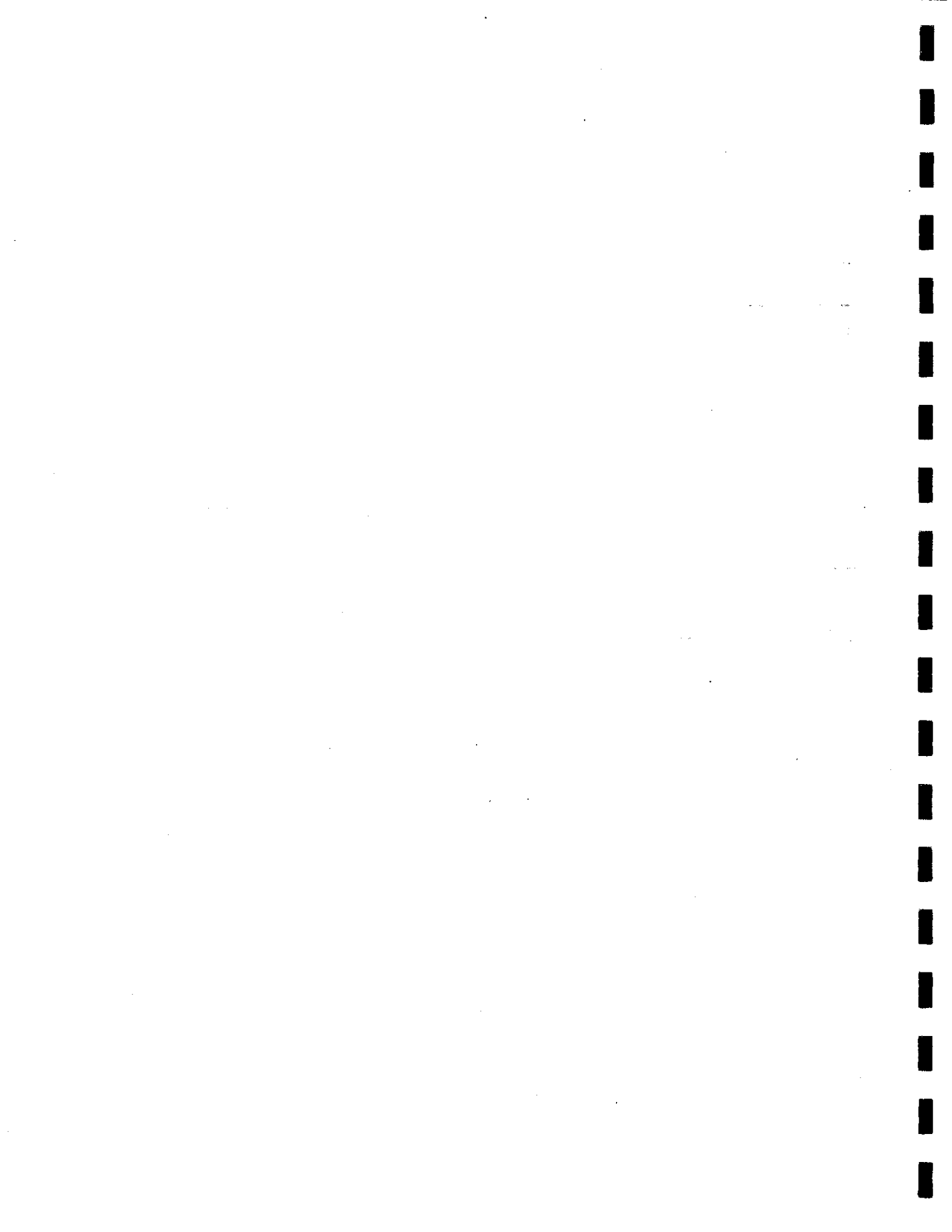
The Bay Area's consumer price index for all urban consumers in June 2009 was 225.692 compared to the U.S. city average consumer price index (CPI-U) for all urban consumers at 215.693 (Base period: 1982 - 84 = 100).

Estimated population for January 1, 2009 is 425,068 with an estimated total number of households of 145,506, an average household size of 2.92 persons, and a per capita personal income of \$26,308.

Increases in expenditures due to new union contracts, CalPERS pension rates, and health care costs have been factored into the City's Fiscal Years 2010-11 budget and amending the municipal code to provide for a three (3) percent surcharge on the City's transient occupancy tax.

### **Requests for Information**

This financial report is designed to provide a general overview of the City of Oakland's finances for all those with an interest in the City's fiscal and economic affairs. Requests for additional financial information should be addressed to the Finance and Management Agency, Accounting Division, City of Oakland, 150 Frank H. Ogawa Plaza, Suite 6353; Oakland, California 94612-2093.



**City of Oakland**  
**Statement of Net Assets**  
**June 30, 2009**  
*(In Thousands)*

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Port of Oakland
<b>ASSETS</b>				
Cash and investments	\$ 424,990	\$ 7,511	\$ 432,501	\$ 77,384
Receivables (net of allowance for uncollectibles of \$5,910 for City and \$3,326 for Port):				
Accrued interest	1,250	-	1,250	170
Property taxes	26,457	-	26,457	-
Accounts receivable	58,040	8,460	66,500	40,632
Grants receivable	14,916	-	14,916	-
Due from Port	13,350	-	13,350	-
Due from other governments	14	-	14	-
Inventories	931	-	931	-
Restricted assets:				
Cash and investments	557,463	21,221	578,684	107,068
Receivables	-	-	-	4,125
Property held for resale	129,870	-	129,870	-
Notes and loans receivable (net of allowance for uncollectibles of \$49,985 for the City)	304,750	-	304,750	-
Other	76	-	76	68,900
Unamortized bond issuance costs	16,070	597	16,667	-
Net pension asset	243,794	-	243,794	-
Capital assets:				
Land and other assets not being depreciated	145,900	11,772	157,672	634,626
Facilities, infrastructures, and equipment, net of depreciation	784,938	141,741	926,679	1,669,449
<b>TOTAL ASSETS</b>	<b>2,722,809</b>	<b>191,302</b>	<b>2,914,111</b>	<b>2,602,354</b>
<b>LIABILITIES</b>				
Accounts payable and other current liabilities	142,635	1,125	143,760	35,400
Accrued interest payable	18,861	161	19,022	18,286
Due to other governments	13,360	-	13,360	-
Due to primary government	-	-	-	13,350
Unearned revenue	5,819	26	5,845	70,144
Matured bonds and interest payable	520	-	520	-
Other	8,380	5	8,385	11,015
Non-current liabilities:				
Due within one year	174,321	2,661	176,982	53,918
Due in more than one year	1,733,937	58,326	1,792,263	1,511,035
<b>TOTAL LIABILITIES</b>	<b>2,097,833</b>	<b>62,304</b>	<b>2,160,137</b>	<b>1,713,148</b>
<b>NET ASSETS (deficit)</b>				
Invested in capital assets, net of related deb	442,793	113,961	556,754	853,011
Restricted net assets:				
Debt service	18,668	-	18,668	-
Pension	120,622	-	120,622	-
Urban redevelopment and housing	188,016	-	188,016	-
Other purposes	11,208	-	11,208	21,357
Unrestricted net assets (deficit)	(156,331)	15,037	(141,294)	14,838
<b>TOTAL NET ASSETS</b>	<b>\$ 624,976</b>	<b>\$ 128,998</b>	<b>\$ 753,974</b>	<b>\$ 889,206</b>

The notes to the basic financial statements are an integral part of this statement.

City of Oakland  
Statement of Activities  
For the Year Ended June 30, 2009  
(In Thousands)

Functional Programs Primary government:	Program Revenue			Net (Expense) Revenue and Changes in Net Assets		Component Unit Port of Oakland
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Business-type Activities	Total
Governmental activities:						
General government	\$ 94,957	\$ 21,128	\$ 5,634	\$ -	\$ (68,195)	\$ (68,195)
Public safety	424,435	15,733	9,774	-	(398,928)	(398,928)
Life enrichment	119,659	11,084	29,931	-	(78,644)	(78,644)
Community and economic development	182,327	47,223	46,321	-	(88,783)	(88,783)
Public works	74,081	30,887	2,693	-	(40,501)	(40,501)
Interest on long-term debt	71,552	-	-	-	(71,552)	(71,552)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>967,011</b>	<b>126,055</b>	<b>94,353</b>	-	<b>(746,603)</b>	<b>(746,603)</b>
Business-type activities:						
Sewer	25,530	35,382	-	-	9,852	9,852
Parks and recreation	652	796	-	-	144	144
<b>TOTAL BUSINESS-TYPE ACTIVITIES</b>	<b>26,182</b>	<b>36,178</b>	-	-	<b>9,996</b>	<b>9,996</b>
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 993,193</b>	<b>\$ 162,233</b>	<b>\$ 94,353</b>	<b>\$ -</b>	<b>(746,603)</b>	<b>(746,607)</b>
Component unit:						
Port of Oakland	\$ 348,167	\$ 283,290	\$ -	\$ 11,896	-	\$ (52,981)
General revenues:						
Property taxes					359,851	359,851
State taxes					-	-
Sales and use taxes					56,090	56,090
Motor vehicle in-lieu tax					1,282	1,282
Fees tax					10,270	10,270
Local taxes					-	-
Business license					54,291	54,291
Utility consumption					52,701	52,701
Real estate transfer					34,267	34,267
Transient occupancy					10,599	10,599
Parking					14,196	14,196
Voter approved special tax					33,772	33,772
Franchise					14,440	14,440
Interest and investment income					590	26,507
Other					81,885	81,885
Transfers					(1,200)	-
<b>TOTAL GENERAL REVENUES AND TRANSFERS</b>					<b>750,761</b>	<b>750,761</b>
Changes in net assets					(610)	34,281
Net Assets - Beginning as originally reported					4,158	(18,700)
Prior period adjustment					620,818	923,798
Adoption of Governmental Accounting Standards Board Statement 49					-	(9,212)
Net Assets - Beginning as restated					620,818	(6,680)
<b>NET ASSETS - ENDING</b>					<b>\$ 624,976</b>	<b>\$ 889,206</b>

The notes to the basic financial statements are an integral part of this statement.



**CITY OF OAKLAND**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2009**  
*(In Thousands)*

	General	Federal/State Grant Fund	Oakland Redevelopment Agency	Municipal Capital Improvement	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>						
Cash and investments	\$120,422	\$ 2,034	\$ 260,660	\$ 1,485	\$ 40,385	\$ 424,986
Receivables (net of allowance for uncollectibles of \$3,695):						
Accrued interest	254	3	880	2	111	1,250
Property taxes	14,966	1,823	2,225	-	7,443	26,457
Accounts receivable	41,053	1,681	2,179	120	12,867	57,900
Grants receivable	-	13,731	-	-	1,185	14,916
Due from component unit	13,350	-	-	-	-	13,350
Due from other funds	69,781	166	15,278	-	3,069	88,294
Due from other government	-	-	14	-	-	14
Notes and loans receivable (net of allowance for uncollectibles of \$49,985)	22,000	110,388	143,823	-	28,539	304,750
Restricted cash and investments	120,736	9,956	252,525	43,413	129,695	556,325
Property held for resale	-	-	129,870	-	-	129,870
Other	36	-	40	-	-	76
<b>TOTAL ASSETS</b>	<b>\$402,598</b>	<b>\$ 139,782</b>	<b>\$ 807,494</b>	<b>\$ 45,020</b>	<b>\$ 223,294</b>	<b>\$1,618,188</b>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>Liabilities</b>						
Accounts payable and accrued liabilities	\$125,811	\$ 4,492	\$ 3,534	\$ 1,830	\$ 5,848	\$ 141,515
Due to other funds	8,578	3,366	11,587	-	14,042	37,573
Due to other governments	51	257	13,052	-	-	13,360
Deferred revenue	30,653	112,573	162,083	-	35,231	340,540
Matured bonds and interest payable	-	-	-	520	-	520
Other	556	522	1,100	637	5,565	8,380
<b>TOTAL LIABILITIES</b>	<b>165,649</b>	<b>121,210</b>	<b>191,356</b>	<b>2,987</b>	<b>60,686</b>	<b>541,888</b>
<b>Fund balances</b>						
Reserved:						
Encumbrances	4,594	17,613	-	5,175	18,473	45,855
Long-term receivables	-	-	1,799	-	-	1,799
Debt service	13,949	-	-	1,473	131,075	146,497
Property held for resale	-	-	129,870	-	-	129,870
Capital projects	-	-	482,998	-	-	482,998
Pension obligations	98,000	-	-	-	-	98,000
Unreserved reported in:						
General fund	120,406	-	-	-	-	120,406
Special revenue funds	-	959	-	-	8,594	9,553
Capital project funds	-	-	1,471	35,385	4,466	41,322
<b>TOTAL FUND BALANCES</b>	<b>236,949</b>	<b>18,572</b>	<b>616,138</b>	<b>42,033</b>	<b>162,608</b>	<b>1,076,300</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$402,598</b>	<b>\$ 139,782</b>	<b>\$ 807,494</b>	<b>\$ 45,020</b>	<b>\$ 223,294</b>	<b>\$1,618,188</b>

The notes to the basic financial statements are an integral part of this statement.

**City of Oakland**  
**Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets**  
**for Governmental Activities**  
**June 30, 2009**  
*(In Thousands)*

Fund balances - total governmental funds	\$ 1,076,300
--	--------------

Amounts reported for governmental activities in the statement of net assets are different due to the following:

Capital assets used in governmental activities are not a financial resource and therefore, are not reported in the funds.

Primary government capital assets, net of depreciation	\$ 930,838	
Less: internal service funds' capital assets, net of depreciation	(17,850)	912,988

Bond issuance costs are expended in the governmental funds when paid and are capitalized and amortized over the life of the corresponding bonds for the purposes of the governmental activities on the statement of net assets.

16,070

Net pension assets are recognized in the statement of net assets as an asset; however, it is not considered a financial resource and, therefore, is not reported on the balance sheet of governmental funds.

243,794

Interest on long-term debt is not accrued in the funds, but rather is recognized as an expenditure when due.

Interest payable on long-term debt for primary government	\$ (18,861)	
Add: Interest payable on long-term debt for internal service fund	78	(18,783)

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current period expenditures. Those assets are offset by deferred revenue in the governmental funds.

334,721

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.

Long-term liabilities	\$ (1,908,258)	
Less: long-term liabilities for internal service funds	7,812	(1,900,446)

Internal service funds are used by the City to charge the costs of providing supplies and services, fleet and facilities management, and use of radio and communication equipment to individual funds. Assets and liabilities of internal service funds are included in governmental activities in the statement of net assets.

(39,668)

**NET ASSETS OF GOVERNMENTAL ACTIVITIES**

**\$ 624,976**

The notes to the basic financial statements are an integral part of this statement.

**CITY OF OAKLAND**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2009**  
*(In Thousands)*

	General	Federal/State Grant Fund	Oakland Redevelopment Agency	Municipal Capital Improvement	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>						
Taxes:						
Property	\$ 198,848	\$ -	\$ 131,536	\$ -	\$ 29,315	\$ 359,699
State:						
Sales and use	46,122	-	-	-	9,968	56,090
Motor vehicle in-lieu	1,282	-	-	-	-	1,282
Gas	-	3,565	-	-	6,184	9,749
Local:						
Business license	54,291	-	-	-	-	54,291
Utility consumption	52,701	-	-	-	-	52,701
Real estate transfer	34,267	-	-	-	-	34,267
Transient occupancy	10,599	-	-	-	-	10,599
Parking	7,655	-	-	-	6,541	14,196
Voter approved special tax	-	12,416	-	-	21,356	33,772
Franchise	14,221	219	-	-	-	14,440
Licenses and permits	1,282	-	-	-	13,185	14,467
Fines and penalties	25,838	863	-	-	2,647	29,348
Interest and investment income	5,311	1,089	11,253	1,097	8,770	27,520
Charges for services	57,447	45	6,733	-	13,060	77,285
Other intergovernmental revenues	-	-	-	-	35,588	35,588
Federal and state grants and subventions	4,505	80,756	-	-	2,710	87,971
Annuity income	5,348	-	-	-	-	5,348
Other	13,346	1,666	15,934	163	4,130	35,239
<b>TOTAL REVENUES</b>	<b>533,063</b>	<b>100,619</b>	<b>165,456</b>	<b>1,260</b>	<b>153,454</b>	<b>953,852</b>
<b>EXPENDITURES</b>						
Current:						
Elected and Appointed Officials:						
Mayor	2,910	-	-	3	721	3,634
Council	3,396	-	-	243	1,382	5,021
City Administrator	9,030	246	-	571	4,234	14,081
City Attorney	9,084	80	-	-	5,290	14,454
City Auditor	1,656	-	-	-	52	1,708
City Clerk	1,873	-	-	-	67	1,940
Agencies/Departments:						
Human Resource Management	5,945	-	-	-	601	6,546
Information Technology	11,029	-	-	460	1,486	12,975
Financial Services	26,618	265	-	-	1,434	28,317
Contracting and Purchasing	1,959	-	-	-	-	1,959
Police Services	210,292	4,120	-	121	17,256	231,789
Fire Services	106,469	2,410	-	1,479	9,353	119,711
Life Enrichment:						
Parks and Recreation	15,868	181	-	49	4,210	20,308
Library	10,595	10,999	-	-	230	21,824
Cultural Arts and Museum	6,121	-	-	100	363	6,584
Aging & Health and Human Services	5,723	30,526	-	-	26,133	62,382
Community and Economic Development	7,555	33,352	96,270	4,933	55,175	197,285
Public Works	31,380	3,483	-	551	28,954	64,288
Other	2,703	15	17,245	-	136	20,099
Capital outlay	415	11,349	-	20,484	12,170	44,418
Debt service:						
Principal repayment	1,433	1,435	29,620	746	105,620	138,854
Bond issuance costs	263	-	601	-	-	864
Interest charges	746	917	26,391	5	37,098	65,157
<b>TOTAL EXPENDITURES</b>	<b>472,983</b>	<b>99,378</b>	<b>170,127</b>	<b>24,745</b>	<b>311,965</b>	<b>1,084,198</b>
<b>EXCESS (DEFICIENCY) OF REVENUES</b>						
<b>OVER (UNDER) EXPENDITURES</b>	<b>60,080</b>	<b>1,241</b>	<b>(4,671)</b>	<b>(28,485)</b>	<b>(158,511)</b>	<b>(130,346)</b>
<b>OTHER FINANCING SOURCES (USES)</b>						
Issuance of debt	-	-	38,755	1,473	-	40,228
Premiums/discounts on issuance of bonds	-	-	(779)	-	-	(779)
Property sale proceeds	8,723	-	-	-	-	8,723
Transfers in	17,041	-	-	500	112,554	130,095
Transfers out	(96,579)	-	(15,975)	-	(16,341)	(128,895)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(70,815)</b>	<b>-</b>	<b>22,001</b>	<b>1,973</b>	<b>96,213</b>	<b>49,372</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(10,735)</b>	<b>1,241</b>	<b>17,330</b>	<b>(26,512)</b>	<b>(62,298)</b>	<b>(80,974)</b>
Fund balances - beginning	247,684	17,331	598,808	68,545	224,906	1,157,274
<b>FUND BALANCES - ENDING</b>	<b>\$ 236,949</b>	<b>\$ 18,572</b>	<b>\$ 616,138</b>	<b>\$ 42,033</b>	<b>\$ 162,608</b>	<b>\$ 1,076,300</b>

The notes to the basic financial statements are an integral part of this statement.

**City of Oakland**  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the**  
**Statement of Activities of Governmental Activities**  
**For the Year Ended June 30, 2009**  
*(In Thousands)*

Net change in fund balances - total governmental funds \$ (80,974)

Amounts reported for governmental activities in the statement of activities are different due to the following:

Government funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay and other capital transactions exceeds depreciation in the current period.

Primary government:		
Capital asset acquisition	\$ 80,799	
Retirement of capital assets	(1,580)	
Depreciation	(47,698)	
Less: net changes of capital assets within internal service funds	(1,151)	30,370

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. Also, loans made to developers and others are treated as urban redevelopment and housing expenditures at the time the loans are made and are reported as revenues when the loans are collected in the funds. This represents the change in the deferred amounts during the current period. 49,895

Some expenses such as claims, workers compensation, and vacation and sick leave reported in the statement of activities do not require the use of current financial resources and therefore are not reported as an expenditure in the governmental funds. 2,800

Changes to the net pension assets, as reported in the statement of activities, do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. (31,487)

Bond issuance costs are expended in the governmental funds when paid, and are deferred and amortized over the life of the corresponding life of the bonds for purposes of the statement of net assets. This is the amount by which current year amortization expense exceeded bond issuance costs in the current period. (847)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt and the advance refunding of debt consume the current financing sources of the governmental funds. These transactions, however have no effect on net assets. This is the amount by which principal retirement and payment to escrow agent exceeded bond proceeds in the current period.

Debt and capital lease principal payments	\$ 138,854	
Issuance of bonds and notes	(40,228)	
Discounts of bonds	779	99,405

Amortization of bond premiums and discounts 2,734

Amortization of refunding loss (3,800)

Additional accrued and accreted interest calculated on bonds and notes payable (22,837)

Principal payments of Coliseum Authority pledge obligation 3,100

Net changes in mandated environmental remediation obligation 971

Net changes on post employment benefits other than pension benefits (OPEB) (42,090)

The net loss of activities of internal service funds is reported with governmental activities (3,082)

**CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES** **\$ 4,158**

The notes to the basic financial statements are an integral part of this statement.

**CITY OF OAKLAND**  
**Statement of Fund Net Assets**  
**Proprietary Funds**  
**June 30, 2009**  
*(In Thousands)*

	<b>Business-type Activities - Enterprise Funds</b>			<b>Governmental Activities</b>
	<b>Sewer Service</b>	<b>Nonmajor Fund Parks and Recreation</b>	<b>Total</b>	<b>Internal Service Funds</b>
<b>ASSETS</b>				
Current Assets:				
Cash and investments	\$ 5,281	\$ 2,230	\$ 7,511	\$ 4
Accounts receivables (net of uncollectibles of \$1,801 and \$414) for the enterprise funds and internal service funds, respectively)	8,455	5	8,460	140
Due from other funds	-	-	-	64
Inventories	-	-	-	931
Restricted cash and investments	20,838	383	21,221	1,138
Total Current Assets	34,574	2,618	37,192	2,277
Non-current Assets:				
Capital assets:				
Land and other assets not being depreciated	11,554	218	11,772	310
Facilities, equipment and infrastructure, net of depreciation	138,735	3,006	141,741	17,540
Total capital assets	150,289	3,224	153,513	17,850
Unamortized bond issuance costs	597	-	597	-
Total Non-current Assets	150,886	3,224	154,110	17,850
<b>TOTAL ASSETS</b>	<b>185,460</b>	<b>5,842</b>	<b>191,302</b>	<b>20,127</b>
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts payable and accrued liabilities	1,125	-	1,125	1,120
Accrued interest payable	161	-	161	78
Due to other funds	-	-	-	50,785
Unearned revenue	26	-	26	-
Other liabilities	5	-	5	-
Bonds and notes payables	2,661	-	2,661	2,511
Total Current Liabilities	3,978	-	3,978	54,494
Non-current Liabilities:				
Bonds and notes payables	58,326	-	58,326	5,301
Total Non-current Liabilities	58,326	-	58,326	5,301
<b>TOTAL LIABILITIES</b>	<b>62,304</b>	<b>-</b>	<b>62,304</b>	<b>59,795</b>
<b>NET ASSETS (DEFICIT)</b>				
Invested in capital assets, net of related debt	110,737	3,224	113,961	13,248
Unrestricted (deficit)	12,419	2,618	15,037	(52,916)
<b>TOTAL NET ASSETS (DEFICIT)</b>	<b>\$ 123,156</b>	<b>\$ 5,842</b>	<b>\$ 128,998</b>	<b>\$ (39,668)</b>

The notes to the basic financial statements are an integral part of this statement.

**CITY OF OAKLAND**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Year Ended June 30, 2009**  
*(In Thousands)*

	<b>Business-type Activities Enterprise Funds</b>			<b>Governmental Activities</b>
	<b>Sewer Service</b>	<b>Nonmajor Fund Parks and Recreation</b>	<b>Total</b>	<b>Internal Service Funds</b>
<b>OPERATING REVENUES</b>				
Rental	\$ -	\$ 488	\$ 488	\$ -
Sewer services	35,373	-	35,373	-
Charges for services	-	-	-	45,183
Other	9	308	317	70
<b>TOTAL OPERATING REVENUES</b>	<b>35,382</b>	<b>796</b>	<b>36,178</b>	<b>45,253</b>
<b>OPERATING EXPENSES</b>				
Personnel	11,086	83	11,169	19,891
Supplies	420	279	699	6,122
Depreciation and amortization	4,264	231	4,495	4,140
Contractual services and supplies	1,223	11	1,234	568
Repairs and maintenance	44	-	44	2,642
General and administrative	3,864	25	3,889	5,267
Rental	839	23	862	2,114
Other	932	-	932	6,279
<b>TOTAL OPERATING EXPENSES</b>	<b>22,672</b>	<b>652</b>	<b>23,324</b>	<b>47,023</b>
<b>OPERATING INCOME (LOSS)</b>	<b>12,710</b>	<b>144</b>	<b>12,854</b>	<b>(1,770)</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Interest and investment income	525	65	590	(1,120)
Interest expense	(2,858)	-	(2,858)	(427)
Other, net	-	-	-	235
<b>TOTAL NON-OPERATING REVENUES (EXPENSES)</b>	<b>(2,333)</b>	<b>65</b>	<b>(2,268)</b>	<b>(1,312)</b>
<b>INCOME (LOSS) BEFORE TRANSFERS</b>	<b>10,377</b>	<b>209</b>	<b>10,586</b>	<b>(3,082)</b>
Transfers out	(600)	(600)	(1,200)	-
<b>TOTAL TRANSFERS</b>	<b>(600)</b>	<b>(600)</b>	<b>(1,200)</b>	<b>-</b>
Change in net assets (deficit)	9,777	(391)	9,386	(3,082)
Net Assets (deficit) - Beginning	113,379	6,233	119,612	(36,586)
<b>NET ASSETS (DEFICIT) - ENDING</b>	<b>\$ 123,156</b>	<b>\$ 5,842</b>	<b>\$ 128,998</b>	<b>\$ (39,668)</b>

The notes to the basic financial statements are an integral part of this statement.

**CITY OF OAKLAND**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**June 30, 2009**  
*(In Thousands)*

	Business-type Activities - Enterprise Funds			Governmental Activities
	Sewer Service	Nonmajor Fund Parks and Recreation	Total	Internal Service Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash received from customers	\$ 34,811	\$ 12	\$ 34,823	\$ 45,207
Cash received from tenants for rents	-	488	488	-
Cash from other sources	9	308	317	70
Cash paid to employees	(11,086)	(83)	(11,169)	(19,891)
Cash paid to suppliers	(8,808)	(595)	(9,403)	(23,261)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>14,926</u>	<u>130</u>	<u>15,056</u>	<u>2,125</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Proceeds from interfund loans	-	-	-	6,388
Repayment of interfund loans	(1,177)	-	(1,177)	(4,710)
Other, net	-	-	-	235
Transfers out	(600)	(600)	(1,200)	-
<b>NET CASH PROVIDED BY (USED IN) NONCAPITAL FINANCING ACTIVITIES</b>	<u>(1,777)</u>	<u>(600)</u>	<u>(2,377)</u>	<u>1,913</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Acquisition of capital assets	(11,237)	(1,041)	(12,278)	(2,991)
Long-term debt:				
Repayment of long-term debt	(2,436)	-	(2,436)	(3,029)
Interest paid on long-term debt	(2,946)	-	(2,946)	(530)
<b>NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(16,619)</u>	<u>(1,041)</u>	<u>(17,660)</u>	<u>(6,550)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest income	525	65	590	(1,120)
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<u>525</u>	<u>65</u>	<u>590</u>	<u>(1,120)</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<u>(2,945)</u>	<u>(1,446)</u>	<u>(4,391)</u>	<u>(3,632)</u>
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>29,064</u>	<u>4,059</u>	<u>33,123</u>	<u>4,774</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 26,119</u>	<u>\$ 2,613</u>	<u>\$ 28,732</u>	<u>\$ 1,142</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>				
Operating income (loss)	\$ 12,710	\$ 144	\$ 12,854	\$ (1,770)
<b>ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>				
Depreciation and amortization	4,264	231	4,495	4,140
Retirement of capital assets	1	-	1	105
Changes in assets and liabilities:				
Receivables	(237)	12	(225)	14
Inventories	-	-	-	205
Due from other funds	-	-	-	10
Accounts payable and accrued liabilities	(1,812)	(257)	(2,069)	(579)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 14,926</u>	<u>\$ 130</u>	<u>\$ 15,056</u>	<u>\$ 2,125</u>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET ASSETS</b>				
Cash and investments	\$ 5,281	\$ 2,230	\$ 7,511	\$ 4
Restricted cash and investments	20,838	383	21,221	1,138
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<u>\$ 26,119</u>	<u>\$ 2,613</u>	<u>\$ 28,732</u>	<u>\$ 1,142</u>
<b>NON CASH ITEMS:</b>				
Amortization of bond premiums	\$ (118)	\$ -	\$ (118)	\$ -
Amortization of bond cost of issuance	30	-	30	-
	<u>\$ (88)</u>	<u>\$ -</u>	<u>\$ (88)</u>	<u>\$ -</u>

The notes to the basic financial statements are an integral part of this statement.

CITY OF OAKLAND  
Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2009  
(In Thousands)

	Pension Trust Funds	Private Purpose Trust Funds
<b>ASSETS</b>		
Cash and investments	\$ 2,923	\$ 8,677
Receivables:		
Accrued interest and dividends	1,089	10
Investments and contributions	8,428	-
Restricted:		
Cash and investments:		
Short-term investments	17,292	-
U.S. government bonds	29,599	-
U.S. Corporate bonds and mutual funds	64,427	-
Domestic equities and mutual funds	160,734	-
International equities and mutual funds	50,938	-
Real estate mortgage loans	47	-
Total restricted cash and investments	323,037	-
Securities lending collateral	105,215	-
<b>TOTAL ASSETS</b>	<u>440,692</u>	<u>8,687</u>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	14,876	586
Securities lending collateral	105,215	-
<b>TOTAL LIABILITIES</b>	<u>120,091</u>	<u>586</u>
<b>NET ASSETS</b>		
Net assets held in trust	<u>\$ 320,601</u>	<u>\$ 8,101</u>

The notes to the basic financial statements are an integral part of this statement.



**CITY OF OAKLAND**  
**Statement of Changes in Fiduciary Net Assets**  
**Fiduciary Funds**  
**For the Year Ended June 30, 2009**  
*(In Thousands)*

	Pension Trust Funds	Private Purpose Trust Funds
<b>ADDITIONS:</b>		
Contributions:		
Member contributions	\$ 7	\$ -
Total contributions	7	-
Trust receipts	-	1,110
Investment income:		
Net depreciation in fair value of investments	(104,321)	-
Interest	7,528	123
Dividends	4,939	-
Securities lending	959	-
TOTAL INVESTMENT INCOME (LOSS)	(90,895)	123
Less investment expenses:		
Investment expenses	(1,685)	-
Borrowers rebates and other agent fees on securities lending transactions	(640)	-
Total investment expenses	(2,325)	-
NET INVESTMENT INCOME (LOSS)	(93,220)	123
Other income	97	2,187
TOTAL ADDITIONS (DEDUCTIONS)	(93,116)	3,420
<b>DEDUCTIONS:</b>		
Benefits to members and beneficiaries:		
Retirement	44,325	-
Disability	26,688	-
Death	2,330	-
TOTAL BENEFITS TO MEMBERS AND BENEFICIARIES	73,343	-
Administrative expenses	1,235	199
CEDA	-	107
Other	-	1,105
Police services	-	468
TOTAL DEDUCTIONS	74,578	1,879
Change in net assets	(167,694)	1,541
NET ASSETS - BEGINNING	488,295	6,560
NET ASSETS - ENDING	\$ 320,601	\$ 8,101

The notes to the basic financial statements are an integral part of this statement.

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**CITY OF OAKLAND**  
**Notes to Basic Financial Statements**  
**Year Ended June 30, 2009**

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**(1) ORGANIZATION AND DEFINITION OF REPORTING ENTITY**

The City of Oakland, California, (the City or Primary Government) was incorporated on May 25, 1854, by the State of California and is organized and exists under and pursuant to the provisions of State law. The Mayor/Council form of government was established in November 1998 through Charter amendment. The legislative authority is vested in the City Council and the executive authority is vested in the Mayor with administrative authority resting with the City Administrator.

The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations and are combined with the data of the Primary Government within the governmental activities column in the government-wide financial statements and governmental funds in the fund financial statements. The Port of Oakland (Port) is the City's discretely presented component unit and is reported in a separate column in the government-wide financial statements to emphasize it possesses characteristics that it is legally separate from the City. Although the Port has a significant relationship with the City, it is fiscally independent and does not provide services solely to the City and, therefore, is presented discretely.

**Blended Component Units**

The Redevelopment Agency of the City of Oakland (Agency) was activated on October 11, 1956, for the purpose of redeveloping certain areas of the City designated as project areas. Its principal activities are acquiring real property for the purpose of removing or preventing blight, constructing improvements thereon, and rehabilitating and restoring existing properties. The Oakland City Council serves as the Board of the Agency. The Agency's funds are reported as a major governmental fund.

The Civic Improvement Corporation (Corporation) was created to provide a lease financing arrangement for the City. The Oakland City Council serves as the governing body for the Corporation. The Corporation's activities are reported in other governmental funds.

The Oakland Joint Powers Financing Authority (JPFA) was formed to assist in the financing of public capital improvements. JPFA is a joint exercise agency organized under the laws of the State of California and is composed of the City and the Agency. The Oakland City Council serves as the governing board for JPFA. JPFA transactions are reported in other governmental funds. Related debt is included in the long-term obligations of the City in the governmental activities column of the government-wide statement of net assets.

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

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**Discretely Presented Component Units**

The Port is a legally separate component unit established in 1927 by the City. Operations include the Oakland International Airport and the Port of Oakland Marine Terminal Facilities. All interfund transactions have been eliminated. The Port is governed by a seven-member Board of Port Commissioners (the Board) that is appointed by the City Council, upon nomination by the Mayor. The Board appoints an Executive Director to administer operations. The Port prepares and controls its own budget, administers and controls its fiscal activities, and is responsible for all Port construction and operations. The Port is required by City charter to deposit its operating revenues in the City Treasury. The City is responsible for investing and managing such funds. The Port is presented in a separate column in the government-wide financial statements.

Complete financial statements of the individual component units may be obtained from:

Finance and Management Agency, Accounting Division  
City of Oakland  
150 Frank H. Ogawa Plaza, Suite 6353  
Oakland, CA 94612-2093

In accordance with Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, the City evaluated potential component units and determined that none of the remaining potential component units were individually significant to the City's reporting entity.

**CITY OF OAKLAND**  
Notes to Basic Financial Statements, (continued)  
Year Ended June 30, 2009

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**(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Government-wide and Fund Financial Statements**

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the City and its component units. The effect of inter-fund activity has been removed from these statements except for interfund services provided among funds. *Governmental activities*, which are normally supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the Primary Government is reported separately from its discretely presented component units and legally separate entities for which the Primary Government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter is excluded from the government-wide financial statements. Major individual governmental funds and a major individual enterprise fund are reported as separate columns in the fund financial statements.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

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liabilities of the current period. The City considers property tax revenues to be available for the year levied and if they are collected within 60 days of the end of the current fiscal period. All other revenues are considered to be available if they are collected within 120 days of the end of the current fiscal period. Expenditures are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and local taxes, grants, licenses, charges for services, and interest and investment income associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Special assessments are recorded as revenues and receivables to the extent installments are considered current. The estimated installments receivable not considered available, as defined above, are recorded as receivables and offset by deferred revenue. All other revenues are reported on a cash basis.

The County of Alameda is responsible for assessing, collecting and distributing property taxes in accordance with enabling state law, and for remitting such amounts to the City. Property taxes are assessed and levied as of July 1 on all taxable property located in the City, and result in a lien on real property. Property taxes are then due in two equal installments; the first on November 1 and the second on February 1 of the following calendar year, and are delinquent after December 10 and April 10, respectively. General property taxes are limited to a flat 1% rate applied to the 1975-76 full value of the property, or 1% of the sales price of the property or of the construction value added after the 1975-76 valuation. Assessed values on properties (exclusive of increases related to sales and construction) can rise a maximum of 2% per year. Taxes were levied at the maximum 1% rate during the year ended June 30, 2009.

The City reports the following major governmental funds:

The **General Fund** is the City's primary operating fund. It accounts for all financial activities and resources of the general government except those required to be accounted for in another fund. These activities are funded principally by property taxes, sales and use taxes, business, utility and real estate transfer taxes, interest and investment income, and charges for services.

The **Federal/State Grant Fund** accounts for various Federal and State grants used or expended for a specific purpose, activity or program.

The **Oakland Redevelopment Agency Fund** accounts for federal grants, land sales, rents and other revenues relating to redevelopment projects. Expenditures are

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

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comprised of land acquisitions and improvements and all other costs inherent to redevelopment activities.

The **Municipal Capital Improvement Fund** accounts primarily for monies pertaining to the Museum and the Scotlan Convention Center financings. This fund may be used for the lease, acquisition, construction or other improvements of public facilities.

The City reports the following major enterprise fund:

The **Sewer Service Fund** accounts for the sewer service charges received by the City based on the use of water by East Bay Municipal Utility District customers residing in the City. The proceeds from the sewer charges are used for the construction and maintenance of sanitary sewers and storm drains and the administrative costs of the program.

Additionally, the City reports the following fund types:

The **Internal Service Funds** account for the purchase of automotive and rolling equipment; radio and other communication equipment; the repair and maintenance of City facilities; acquisition, maintenance and provision of reproduction equipment and services; acquisition of inventory provided to various City departments on a cost reimbursement basis; and procurement of materials, supplies and services for City departments.

The **Pension Trust Funds** account for closed benefit plans that cover uniformed employees hired prior to July 1976 and non-uniformed employees hired prior to September 1970.

The **Private Purpose Trust Funds** account for the operations of the Youth Opportunity Program and certain gifts that are not related to Agency projects or parks, recreation and cultural activities. The Private Purpose Trust Fund accounts for employee deferred compensation fund

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed in both the business-type activities in the government-wide and the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The City also has the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The City has elected not to follow subsequent private-sector guidance.

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

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Charges between the City and the Port are not eliminated because the elimination of these charges would distort the direct costs and revenues reported.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenues of the City's enterprise and internal service funds are charges for customer services including: sewers, golf courses, vehicle acquisition and maintenance, radio and telecommunication support charges, charges for facilities maintenance, and reproduction services. Operating expenses for enterprise funds and internal service funds include the cost of services, administrative expenses, and depreciation on capital assets. All other revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

### **Cash and Investments**

The City follows the practice of pooling cash of all operating funds for investment, except for the Oakland Redevelopment Agency Fund, and funds held by outside custodians. Investments are generally carried at fair value. Money market investments (such as short-term, highly liquid debt instruments including commercial paper, banker's acceptances, U.S. Treasury and agency obligations) that have a remaining maturity at the time of purchase of one year or less, and participating interest-earning investment contracts (such as negotiable certificates of deposit, repurchase agreements and guaranteed or bank investment contracts) are carried at amortized cost. Changes in fair value of investments are recognized as a component of interest and investment income.

Proceeds from debt and other cash and investments held by fiscal agents by agreement are classified as restricted assets.

Income earned or losses arising from the investment of pooled cash are allocated on a monthly basis to the participating funds and component units based on their proportionate share of the average daily cash balance.

Short-term investments are reported at cost, which approximates fair value. Securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates. Mortgages are reported based on the remaining principal balances which approximate the value of future principal and interest payments discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on prices in a competitive market as determined by a specialist.



**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

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For purposes of the statement of cash flows, the City considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The proprietary funds' investments in the City's cash and investment pool are, in substance, demand deposits and are therefore considered to be cash equivalents.

### **Due From/Due To Other Funds and Internal Balances**

During the course of operations, numerous transactions and borrowings occur between individual funds for goods provided or services rendered and funds that have overdrawn their share of pooled cash and inter-fund loans. In the fund financial statements, these receivables and payables are classified as "due from other funds" and "due to other funds", respectively. In the government-wide financial statements, these receivables and payables are eliminated within the governmental activities and business-type activities columns. Net receivables and payables between the governmental activities and business-type activities are classified as internal balances.

### **Interest Rate Swap Agreement**

The City entered into an interest rate swap agreement to modify the interest rate on outstanding debt. Other than the net interest expense resulting from this agreement, no amounts are recorded in the financial statements. Refer to Note 12 for additional information.

### **Inter-fund Transfers**

In the fund financial statements, inter-fund transfers are recorded as transfers in/out except for certain types of transactions that are described below:

Charges for services are recorded as revenues of the performing fund and expenditures of the requesting fund. Unbilled costs are recognized as an asset of the performing fund and a liability of the requesting fund at the end of the fiscal year.

Reimbursements for expenditures, initially made by one fund that are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as a reduction of expenditures in the fund that is reimbursed. Reimbursements are eliminated for purposes of government-wide reporting.

### **Bond Issuance Costs and Discounts/Premiums**

In the government-wide financial statements and in the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

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amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental funds recognize bond premiums and discounts as other financing sources and uses, respectively, and bond issuance costs as debt service expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received are reported as debt service expenditures.

### **Inventories**

Inventories, consisting of materials and supplies held for consumption, are stated at cost. Cost is calculated using the average cost method. Inventory items are considered expensed when consumed rather than when purchased.

### **Capital Assets**

Capital assets, which include land, museum collections, construction in progress, facilities and improvements, furniture, machinery and equipment, infrastructure (e.g., streets, streetlights, traffic signals, and parks), sewers and storm drains, and capital assets acquired prior to 1980, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Capital outlay is recorded as expenditures in the general, federal/state grant, the Agency, municipal capital improvements, and other governmental funds and as assets in the government-wide and proprietary financial statements to the extent the City's capitalization threshold is met.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend its useful life are not capitalized.

The City has a collection of artwork presented for public exhibition and education that is being preserved for future generations. These items are protected, kept unencumbered, cared for and preserved by the City. The proceeds from the sale of any pieces of the collection are used to purchase other acquisitions for the collection. However, future acquisitions purchased with authorized budgeted City funds during a fiscal year will be reported as non-depreciable assets in the City's financial statements.

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

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Depreciation of capital assets is provided on the straight-line basis over the following estimated useful lives:

Facilities and improvements	5-40 years
Furniture, machinery and equipment	2-20 years
Infrastructure	5-50 years

### **Property Held for Resale**

Property held for resale is recorded as an asset at the lower of cost or estimated net realizable value. In its fund statements, the Agency charges as expenditures, the cost of developing and administering its capital development projects related to costs over and above the cost of the initial acquisition.

### **Net Pension Asset**

In February 1997, the City issued pension obligation bonds to reduce the actuarial accrued liability of the Police and Fire Retirement System (PFRS). The net pension asset represents a prepaid asset amortized over the same period used by the actuary at the time of the bond issuance, as it allows for the matching of the asset with the related pension obligation bond liability. See Note 16 for the accounting treatment of the net pension asset.

### **Compensated Absences - Accrued Vacation, Sick Leave, and Compensatory Time**

It is the City's policy and its agreements with employee groups to permit employees to accumulate earned but unused vested vacation, sick leave and other compensatory time. All earned compensatory time is accrued when incurred in the government-wide financial statements and the proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they are due and payable.

### **Retirement Plans**

City employees participate in one of three defined benefit retirement plans: Oakland Police and Fire Retirement System (PFRS), Oakland Municipal Employees' Retirement System (OMERS), and California Public Employees' Retirement System (PERS), collectively the Plans. Employer contributions and member contributions made by the employer to the Plans are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the provisions of the Plans. Refer to Note 16 for additional information.

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

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**Other Post Employment Benefits (OPEB)**

The OPEB valuation covers Police, Fire and Miscellaneous employees. The City retirees are eligible for retiree health benefits if they meet certain requirements relating to age and service. The retiree health benefits are described in the labor agreements between the City and Local Unions and in City resolutions. The demographic rates used for the California Public Employee Retirement System (PERS) were public safety employees retirements benefits under a 3% @ 50 formula and miscellaneous employees retirement benefits under a 2.7% @ 55 formula. At June 30, 2009, the City reported a net OPEB obligation of \$85,758,505. See Note 17 for additional information.

**Pollution Remediation Obligations (GASB 49)**

The City implemented GASB Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations, which identifies the circumstances under which a government is required to report a liability related to pollution remediation. In accordance with the statement, the City will estimate its expected pollution remediation obligations at current value and using the expected cash flow measurement technique. By adopting the provisions of GASB 49, the City recorded remediation liabilities related to its pollution remediation activities. See Note 12 for additional information.

**Refunding of Debt**

Gains or losses occurring from advance refundings are deferred and amortized into expense for both business-type activities and proprietary funds. For governmental activities reported in the government-wide financial statements, they are deferred and amortized into expense if they occurred subsequent to June 30, 2001, which was the implementation date of the new reporting model.

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

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**Fund Balances**

Reservations of fund balances of the governmental funds indicate those portions of fund equity that are not available for appropriation or expenditure or which have been legally restricted to a specific use. The following is a brief description of the nature of certain reserves.

1. **Reserve for Encumbrances** – Encumbrances outstanding at fiscal year end are reported as reservations of fund balances and the related appropriation is automatically carried forward into the next fiscal year. Encumbrances do not constitute expenditures or liabilities because the commitments will be honored during the subsequent fiscal year.
2. **Reserve for Long-Term Receivables** – This fund balance is reserved for long-term receivables that do not represent expendable available financial resources.
3. **Reserve for Debt Service** – This fund balance is reserved for the payment of debt service requirements in subsequent years.
4. **Reserve for Property Held for Resale** – This fund balance is reserved for the cost of developing and administering residential and commercial properties intended for resale.
5. **Reserve for Capital Projects** – This fund balance is reserved for ongoing projects in specific areas excluding the General Fund. This reservation includes \$94,569,000 reserved for low and moderate housing projects.
6. **Reserve for Pension Obligations** – This fund balance is reserved for the City's pension obligations and is restricted with New York Life Annuity Company.

Designations of portions of the General Fund unreserved fund balance have been made to indicate those portions of the fund balances which the City has tentative plans to utilize in a future period. These amounts may or may not result in actual expenditures. See Note 13 for specific designations.

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

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**Restricted Net Assets**

Restricted net assets are those assets, net of their related liabilities that have constraints placed on their use by laws and regulations of other governments, creditors, grantors, or contributors and restrictions imposed by law through constitutional provisions or enabling legislation. Accordingly, restricted assets may include principal and interest amounts accumulated to pay debt service, unspent grant revenues, certain fees and charges, and restricted tax revenues. At June 30, 2009, the government-wide statement of net assets reported restricted net assets of \$338.5 million in governmental activities, none of which was restricted by enabling legislation.

**Restatement of Net Assets - Component Unit - Port of Oakland**

Beginning Net Assets as of June 30, 2008 have been restated by \$9,212,000 due to the correction of accruing excess minimum annual guaranteed revenues to a maritime tenant and cost reimbursement related to maritime terminal improvements.

Beginning Net Assets as of June 30, 2008 have been restated by \$6,680,000 to account for existing pollution remediation liabilities from prior periods, as allowed by GASB 49. See Note 18 for further information.

**Effects of New Pronouncements**

In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets to reduce inconsistencies in reporting, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments. This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This Statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2009. The provisions of this Statement generally are required to be applied retroactively.

In June 2008, the GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The statement specifically requires governments to measure and report most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The requirement of reporting the derivative instruments at fair value on the

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

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face of the financial statements gives the users of financial statements a clearer look into the risks their governments are sometimes exposed to when they enter into these transactions and how those risks are managed. The statement also addresses hedge accounting requirements and improves disclosures, providing a summary of the government's derivative instrument activity, its objectives for entering into derivative instruments, and their significant terms and risks. Application of this statement is effective for the City's fiscal year ending June 30, 2010.

In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement is intended to improve the usefulness of information provided to financial report users about fund balance by providing clearer, more structured fund balance classifications, and by clarifying the definitions of existing governmental fund types. It establishes a hierarchy of fund balance classifications based primarily on the extent to which a government is bound to observe spending constraints imposed upon how resources reported in governmental funds may be used. Specifically, GASB 54 distinguishes fund balances between amounts that are considered nonspendable and other amounts that are classified based on the relative strength of the constraints that control the purposes for which specific amounts can be spent. Fund balance amounts will be reported in the following classifications:

- Restricted – amounts constrained by external parties, constitutional provision or enabling legislation;
- Committed – amounts constrained by a government using its highest level of decision-making authority;
- Assigned – amounts a government intends to use for a particular purpose; and
- Unassigned – amounts that are not constrained at all will be reported in the general fund.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2010.

### **Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

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**(3) CASH AND INVESTMENTS AND RESTRICTED CASH AND INVESTMENTS**

**Primary Government**

The City maintains a cash and investment pool consisting of City funds and cash held for OMERS, PFRS, and Port. The City's funds are invested according to the investment policy adopted by the City Council. The objectives of the policy are legality, safety, liquidity, diversity, and yield. The policy addresses soundness of financial institutions in which the City can deposit funds, types of investment instruments permitted by the California Government Code, duration of the investments, and the percentage of the portfolio that may be invested in:

- United States Treasury securities (subject to restrictions by the Nuclear Free Ordinance);
- federal agency issues;
- bankers' acceptances;
- commercial paper;
- medium term corporate notes and deposit notes;
- negotiable certificates of deposit;
- certificates of deposit;
- State of California Local Agency Investment Fund;
- money market mutual funds;
- local city/agency bonds;
- State of California bonds;
- secured obligations and agreements;
- repurchase agreements; and
- reverse repurchase agreements.

The City's investment policy stipulates that the collateral to back up repurchase agreements be priced at market value and be held in safekeeping by the City's primary custodian. Additionally, the City Council has adopted certain requirements prohibiting investments in nuclear weapons makers, and restricting investments in U.S. Treasury bills and notes due to their use in funding nuclear weapons research and production.

On August 31, 2009, the City Operating Fund or Investment Pool is rated 'AAA/V1+' by Fitch Ratings. Investment pools rated AAA reflects the high credit quality of the portfolio assets, a conservative investment policy, and appropriate management oversight and operational capabilities. The fund's V1+ volatility rating reflects low market risk and a capacity to return stable principal value meeting anticipated cash needs of the City and the Port of Oakland, even in adverse interest rate environments.



**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

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Other deposits and investments are invested pursuant to the governing bond covenants, deferred compensation plans, or retirement systems' investment policies. Under the investment policies, the investment counsel is given the full authority to accomplish the objectives of the bond covenants or retirement systems subject to the discretionary limits set forth in the policies.

The retirement systems' investment policies authorize investment in the domestic stocks and bonds, U.S. equities, international equities, U.S. fixed income, mortgage loans and real estate. The systems' investment portfolios are managed by external investment managers. During the year ended June 30, 2009, the number of external investment managers was nine for the PFRS and one for the OMERS.

Total City deposits and investments at fair value are as follows (in thousands):

	<b>Primary Government</b>		<b>Fiduciary Funds</b>	<b>Total</b>	<b>Component Unit</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>			<b>Port</b>
Cash and investments	\$ 424,990	\$ 7,511	\$ 11,600	\$ 444,101	\$ 77,384
Restricted cash and investments	557,463	21,221	323,037	901,721	107,068
Restricted securities lending collateral	-	-	105,215	105,215	-
<b>TOTAL</b>	<b>\$ 982,453*</b>	<b>\$ 28,732</b>	<b>\$ 439,852</b>	<b>\$ 1,451,037</b>	<b>\$ 184,452</b>
Deposits				\$ 33,542	\$ 1,721
Investments				1,417,495	182,731
<b>TOTAL</b>				<b>\$ 1,451,037</b>	<b>\$ 184,452</b>

\*\$982,453 consists of all governmental funds and the internal service funds.

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

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**Investments - Primary Government**

**Custodial Credit Risk:** For investments, custodial risk is the risk that in the event of a failure of a depository financial institution or counterparty to a transaction, the inability to recover the value of the investments or collateral securities in the possession of an outside party. To protect against fraud and potential losses from the financial collapse of securities dealers, all securities owned by the City shall be held in the name of the City for safekeeping by a third party bank trust department, acting as an agent for the City under the terms of the Custody Agreement. The City's investments subject to Custodial Credit Risk Category is very low.

At June 30, 2009, the carrying amount of the City's deposits and bank balance was \$33.5 million. Deposits include checking accounts, interest earning savings accounts, money market accounts, and nonnegotiable certificates of deposit. Of the bank balance, \$2.9 million was FDIC insured and \$30.6 million was collateralized with securities held by the pledging financial institution in the City's name, in accordance with Section 53652 of the California Government Code.

The California Government Code requires that governmental securities or first trust deed mortgage notes be used as collateral for demand deposits and certificates of deposit at 110 percent and 150 percent, respectively, of all deposits not covered by federal deposit insurance. The collateral must be held by the pledging financial institution's trust department and is considered held in the City's name.

**Credit Risk:** Credit risk represents the possibility that the issuer/counterparty to an investment will be unable to fulfill its obligations. The most effective method for minimizing the risk of default by an issuer is to invest in high quality obligations. Under the City investment policy, short term debt shall be rated at least A-1 by Standard and Poor's (S&P), P-1 by Moody's Investors Service or F-1 by Fitch Ratings. Long term debt shall be rated at least A by Standard and Poor's, Moody's Investors Service or Fitch Ratings.

Since these obligations are the only ones permitted by State law, investing in them is also the most effective way to maintain legal compliance. The City invests only in securities from highly rated entities. As of June 30, 2009, approximately 82% of the pooled investments was invested in "AAA" quality securities.

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

The following tables show the City's credit risk for the Pool and Restricted portfolios as of June 30, 2009 (in thousands):

**Pooled Investments**

	Rating as of Fiscal Year Ended 06-30-09			
	Fair Value	AAA/Aaa	A1/P1/F1	Not Rated
U.S. Govt. Agency Securities	\$ 136,814	\$ 136,814	\$ -	\$ -
U.S. Govt. Agency Securities (Disc)	181,901	181,901	-	-
Money Market Funds	99,810	99,810	-	-
Local Agency Investment Fund (LAIF)	78,695	-	-	78,695
Negotiable Certificates of Deposit	13,015	-	13,015	-
<b>Total Investment Pool</b>	<b>\$ 510,235</b>	<b>\$ 418,525</b>	<b>\$ 13,015</b>	<b>\$ 78,695</b>

**Restricted Investments**

	Rating as of Fiscal Year Ended 06-30-09				
	Fair Value	AAA/Aaa	A1/P1/F1	Ba1	Not Rated
U.S. Treasury Strips	\$ 21,781	\$ -	\$ -	\$ -	\$ 21,781
Money Market Funds	335,766	335,766	-	-	-
Local Agency Investment Fund (LAIF)	5,029	-	-	-	5,029
Commercial Paper	577	-	577	-	-
Corporate Bonds	1,980	-	-	1,980	-
Investment Agreements	13,241	-	-	-	13,241
Local Government Bond	100,674	-	-	-	100,674
Annuity	98,000	-	-	-	98,000
<b>Total</b>	<b>\$ 577,048</b>	<b>\$ 335,766</b>	<b>\$ 577</b>	<b>\$ 1,980</b>	<b>\$ 238,725</b>

**Concentration of Credit Risk:** The City has an investment policy related to City's cash and investment pool, which is subject to annual review. Under the City's Investment Policy, no more than five percent (5%) of the total assets of the investments held by the City may be invested in the securities of any one issuer, except the obligations of the United States government or government-sponsored enterprises, investment with the Local Agency Investment Fund and proceeds of or pledged revenues for any tax revenue anticipation notes. Per the policy, the investments conform to Sections 53600 et seq. of the California Government Code and the applicable limitations contained within the policy.

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

Certain other investments are governed by bond covenants which do not restrict the amount of investment in any one issuer. Investments in one issuer that exceed 5% of the City's investment portfolio at June 30, 2009 are as follows (in thousands):

<b>Issuer</b>	<b>Investment Type</b>	<b>Amount</b>	<b>Percent of City's Investment Portfolio</b>
Federal National Mortgage Association	U.S. Government Securities	\$ 86,379	7.94%
Federal Home Loan Bank	U.S. Government Securities	118,325	10.88%
Federal Home Loan Mortgage Corporation	U.S. Government Securities	95,971	8.83%
Oakland Joint Powers Financing Authority	Local Government Bond	100,674	9.26%
New York Life Insurance Company	Annuity	98,000	9.01%

The following table shows the diversification of the City's portfolio (in thousands):

<b>Pooled Investments</b>			<b>Restricted Investments</b>		
	<b>Fair Value</b>	<b>% of Portfolio</b>		<b>Fair Value</b>	<b>% of Portfolio</b>
U.S. Govt. Agency Securities	\$ 136,814	26.82%	U.S. Treasury Strips	\$ 21,781	3.77%
U.S. Govt. Agency Securities (Disc)	181,901	35.65%	Money Market Funds	335,766	58.19%
Money Market Funds	99,810	19.56%	LAIF	5,029	0.87%
LAIF	78,695	15.42%	Commercial Paper	577	0.10%
Negotiable Certificates of Deposit	13,015	2.55%	Corporate Bond	1,980	0.34%
			Investment Agreements	13,241	2.30%
			Local Government Bonds	100,674	17.45%
			Annuity	98,000	16.98%
<b>TOTAL</b>	<b>\$ 510,235</b>	<b>100.00%</b>	<b>TOTAL</b>	<b>\$ 577,048</b>	<b>100.00%</b>

**Interest Rate Risk:** This risk represents the possibility that an interest rate change could adversely affect an investment's fair value. The longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

As a means for limiting its exposure to changing interest rates, Section 53601 of the State of California Government Code and the City's Investment Policy limits certain investments to short maturities such as Certificates of Deposit and Commercial Paper, whose maturities are 360 days and 270 days respectively. Also, Section 53601 of the State of California Government Code limits the maximum maturity of any investment to be no longer than 5 years unless authority for such investment is expressly granted in advance by the City Council or authorized by bond covenants. The City continues to purchase a combination of shorter term and longer-term investments to minimize such risks.

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

The City has elected to use the segmented time distribution method of disclosure for its interest rate risk. As of June 30, 2009, the City's pooled portfolio had an average day to maturity of 207 days and had the following investments and original maturities (in thousands):

**Pooled Investments**

	Fair Value	Interest Rates (%)	Maturity		
			12 Months or Less	1 - 3 Years	3 - 5 Years
U.S. Govt. Agency Securities	\$ 136,814	0.00 - 4.07	\$ 18,233	\$ 73,084	\$ 45,497
U.S. Govt. Agency Securities (Disc)	181,901	0.00 - 0.24	181,901	-	-
Money Market Funds*	99,810	0.54	99,810	-	-
Local Agency Investment Fund (LAIF)*	78,695	1.38	78,695	-	-
Negotiable Certificates of Deposit	13,015	1.16 - 1.94	13,015	-	-
<b>Total Investment Pool</b>	<b>\$ 510,235</b>		<b>\$ 391,654</b>	<b>\$ 73,084</b>	<b>\$ 45,497</b>

\* weighted average maturity used.

**Restricted Investments**

	Fair Value	Interest Rates (%)	Maturity			
			12 Months or Less	1 - 3 Years	3 - 5 Years	5 Years +
U.S. Treasury Strips	\$ 21,781	0.55 - 4.93	\$ 2,142	\$ 4,207	\$ 3,974	\$ 11,458
Money Market Funds*	335,766	0.00 - 1.70	335,766	-	-	-
Local Agency Investment Fund*	5,029	1.38	5,029	-	-	-
Commercial Paper	577	0.40	577	-	-	-
Corporate Bonds	1,980	12.26	-	-	-	1,980
Investment Agreements	13,241	4.50 - 4.88	13,241	-	-	-
Local Government Bond	100,674	4.86	6,171	13,335	14,815	66,353
Annuity	98,000	5.45	-	-	-	98,000
<b>Total</b>	<b>\$ 577,048</b>		<b>\$ 362,926</b>	<b>\$ 17,542</b>	<b>\$ 18,789</b>	<b>\$ 177,791</b>

\* weighted average maturity used.

**Foreign Currency Risk:** This is the risk that changes in exchange rates between the U.S. dollar and foreign currencies which could adversely affect an investment's fair value. The City only invests in U.S. dollar denominated obligations. This successfully eliminates all risk of principal erosion due to fluctuations in the values of foreign currencies.

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

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**Other Disclosures:** As of June 30, 2009, the City's investment in LAIF is \$83.7 million (\$78.7 million in pooled investments and \$5.0 million in restricted investments). The total amount invested by all public agencies in LAIF at that date is approximately \$25.2 billion. LAIF is part of the Pooled Money Investment Account (PMIA) with a total portfolio of approximately \$50.7 billion, 85.29% is invested in non-derivative financial products and 14.71% in structured notes and asset-backed securities. As of June 30, 2009, LAIF has a average life-month end of 235 days. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State Statute. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis that is different than the fair value of the City's position in the pool.

**Pensions Cash and Investments**

**Oakland Municipal Employee's Retirement System (OMERS)**

**City's Investment Pool and Deposits**

Cash and cash deposits consisted of cash in treasury held in the City's cash and investment pool. These funds are invested according to the investment policy adopted by the City Council. Interest earned on these pooled accounts is allocated monthly to all funds based on the average daily cash balance maintained by the respective funds. As of June 30, 2009, OMERS share of the City's investment pool totaled \$125,111.

**Investments**

OMERS investment policy authorizes investments in domestic common stocks, bonds and mutual funds. During the year ended June 30, 2009, OMERS investment portfolio was managed by one external investment manager.

OMERS investment policy states that the asset allocation of the investment portfolio target shall be 70% Domestic Equity and 30% Domestic Fixed Income. As of June 30, 2009, OMERS investment portfolio consists of shares of two commingled fund investments (Funds). OMERS invests in the Western Asset Core Bond Fund, Barclays Aggregate Bond Fund and the American Century Equity Fund. Specific guidelines for the Funds are detailed in the prospectus, or declaration of Trust, for each individual fund.

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

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The following summarizes OMERS investment portfolio as well as the interest rate and maturity of the funds as of June 30, 2009 (in thousands):

<b>Investments</b>	<b>Fair Value</b>	<b>Yield</b>	<b>Weighted Average Maturity (Years)</b>
<b>Equity Investments</b>			
American Century Equity Mutual Fund	\$ 3,389	-	-
<b>Fixed Investments</b>			
Western Asset Core Bond Mutual Fund	833	5.5%	8.1
Barclays Aggregate Bond Fund	663	4.9%	6.7
Total Investment	<u>\$ 4,885</u>		

**Credit Risk:** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. OMERS investment policy states that the fixed income portfolio shall not exceed 8% investment in below investment grade securities (rated Ba/BB) or below by at least one Nationally Recognized Statistical Rating Organization (NRSRO) at the fair market value. OMERS fixed income portfolio consists of shares of the Western Asset Core Bond Fund and Barclays Aggregate Bond Fund. The Western Asset Core Bond Fund has an average credit quality rating of AA-. The Barclays Aggregate Bond Fund has an average credit quality rating of AA.

**Custodial Credit Risk:** Custodial credit risk is the risk that, in the event of a failure of a depository financial institution or counterparty to a transaction, the inability to recover the value of deposits, investments, or collateral securities in the possession of an outside party.

The California Government Code requires that governmental securities or first trust deed mortgage notes be used as collateral for demand deposits and certificates of deposit at 110 percent and 150 percent, respectively, of all deposits not covered by federal deposit insurance. As the City holds all cash and certificates of deposit on behalf of OMERS, the collateral must be held by the pledging financial institution's trust department and is considered held in the City's name.

OMERS does not have any investments that are not registered in the name of OMERS and are either held by the counterparty or the counterparty's trust department or agent, but not in OMERS's name.

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

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**Oakland Police and Fire Retirement System (PFRS)**

**Cash and Cash Deposits**

As of June 30, 2009, cash and cash deposits consisted of cash in treasury held in the City's cash and investment pool as well as cash deposits held in bank and with a custodian. These funds are invested according to the investment policy adopted by the City Council. Interest earned on these pooled accounts is allocated monthly to all funds based on the average daily cash balance maintained by the respective funds. As of June 30, 2009, PFRS share of the City's investment pool totaled \$1,184,840.

PFRS has a money market account with Alta Alliance Bank in the amount of \$1,570,685 and a cash balance of \$42,004 in their international custodian accounts. Of the total cash and cash deposits not held in the City's investment pool, \$142,004 was FDIC insured and \$1,470,684 was collateralized with securities held by the pledging financial institution in PFRS name, in accordance with Section 53652 of the California Government Code.

**Investments**

PFRS investment policy authorizes investment in U.S. equities, international equities, U.S. fixed income, instruments including U.S. Treasury notes and bonds, government agency mortgage backed securities, U.S. corporate notes and bonds, collateralized mortgage obligations, yankee bonds and non U.S. issued fixed income securities denominated in foreign currencies. PFRS investment portfolio is managed by external investment managers. During the year ended June 30, 2009, the number of external investment managers was nine.

The PFRS investments are also restricted by the City Charter. In November 2006, City voters passed Measure M to amend the City Charter to allow the PFRS Board to invest in non-dividend paying stocks and to change the asset allocation structure from 50% equities and 50% fixed income to the Prudent Person Standard.

PFRS investment policy limits fixed income investments to a maximum average duration of 10 years and a maximum remaining term to maturity (single issue) at purchase of 30 years, with targeted portfolio duration of between 3 to 8 years and targeted portfolio maturity of 15 years. PFRS investment policy with respect to fixed income investments identifies two standards for credit quality. The policy allows the fixed managers to invest in securities with a minimum rating of B or higher as long as the portfolio maintains an average credit quality of BBB (investment grade using Standard & Poor's or Moody's ratings).



**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

PFRS investment policy states that investments in derivative securities known as Collateralized Mortgage Obligations (CMOs) shall be limited to a maximum of 20% of an account's market value with no more than 5% in any one issue. CMOs are mortgage-backed securities that create separate pools of pass-through rates for different classes of bondholders with varying maturities. The fair value of CMOs are considered sensitive to interest rate changes because they have embedded options.

The investment policy allows for each fixed income asset manager to have a maximum of 10% of any single security investment in their individual portfolios with the exception of U.S. government securities, which is allowed to have a maximum of 25% in each manager's portfolio.

**Interest Rate Risk:** This is the risk that changes in interest rates will adversely affect the fair value of an investment. PFRS investment policy limits fixed income investments to a maximum average duration of 10 years and a maximum remaining term to maturity (single issue) at purchase of 30 years, with targeted portfolio duration of between 3 to 8 years and targeted portfolio maturity of 15 years. The weighted average duration for PFRS fixed income investment portfolio excluding fixed short-term investments and securities lending investments was 4.74 as of June 30, 2009.

As of June 30, 2009, PFRS had the following fixed income investments by category (in thousands):

**Short-Term Investment Duration:**

<u>Investment Type</u>	<u>Fair Value</u>	<u>Modified Duration (Year)</u>
U.S. Treasuries	\$ 4,696	0.24
Pooled Funds	12,568	N/A
Total Short-Term Investments	<u>\$ 17,264</u>	

**Long-Term Investment Duration:**

<u>Investment Type</u>	<u>Fair Value</u>	<u>Modified Duration (Year)</u>
Government Bonds		
U.S. Treasuries	\$ 13,855	5.03
Other U.S. Government Bonds	15,744	3.09
Total Government Bonds	29,599	
U.S. Corporate Bonds	62,931	5.09
Total Fixed Income Investments	<u>\$ 92,530</u>	4.74

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

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**Credit Risk:** This is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The following tables provide information as of June 30, 2009 concerning credit risk of fixed securities (in thousands):

<u>Short-Term Investment Type</u>	<u>S &amp; P/Moody's Rating</u>	<u>Fair Value</u>
U.S. Treasuries	AAA/Aaa	\$ 4,696
Pooled Funds	Not Rated	12,568
Total Short-Term Investments		<u>\$ 17,264</u>

The following tables provide information as of June 30, 2009 concerning credit risk of fixed and Long-term investment rating (in thousands):

<u>S &amp; P/Moody's Rating</u>	<u>Fair Value</u>	<u>Percent of Total Fair Value</u>
AAA/Aaa	\$ 38,925	42.07%
AA /Aa.	4,709	5.09%
A/A	20,066	21.69%
BBB/Baa	21,151	22.86%
BB/Ba	3,110	3.36%
B/B	3,266	3.53%
Not Rated	1,303	1.41%
Total Fixed Investments	<u>\$ 92,530</u>	<u>100.0%</u>

**Concentration of Credit Risk:** This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. As of June 30, 2009, no investment in any single insurer exceeded 5% of PFRS investments.

**Custodial Credit Risk:** Custodial credit risk is the risk that, in the event of a failure of depository financial institution or counterparty to a transaction, the inability to recover the value of deposits, investments, or collateral securities in the possession of an outside party.

The California Government Code requires that governmental securities or first trust deed mortgage notes be used as collateral for demand deposits and certificates of deposit at 110 percent and 150 percent, respectively, of all deposits not covered by federal deposit insurance. As the City holds cash and certificates of deposit on behalf of PFRS, the collateral must be held by the pledging financial institution's trust department and is considered held in the City's name. For all other PFRS deposits, the collateral must be held

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

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by the pledging financial institution's trust department and is considered held in PFRS' name.

The City, on behalf of PFRS, does not have any funds or deposits that are not covered by depository insurance, which are either uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent, but not in the City's name. PFRS does not have any investments that are not registered in the name of PFRS and are either held by the counterparty or the counterparty's trust department or agent, but not in PFRS' name.

**Foreign Currency Risk:** Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair values of an investment or deposit. Currency hedging is allowed under the PFRS investment policy for defensive purposes only. The investment policy limits currency hedging to a maximum of 25% of the portfolio value. The following summarizes the PFRS investments denominated in foreign currencies as of June 30, 2009:

<u>Foreign Currency</u>	<u>Total</u>
Australian Dollar	\$ 2,350
Brazilian Real	171
British Pound	6,323
Canadian Dollar	2,442
Danish Krone	551
Euro	6,983
Hong Kong Dollar	4,165
Japanese Yen	4,407
Norwegian Krone	234
Philippines Peso	1
Singapore Dollar	143
South African Rand	238
Swiss Franc	2,914
<b>Total Foreign Currency</b>	<b><u>\$ 30,922</u></b>

**Securities Lending Transactions**

PFRS is authorized to enter into securities lending transactions which are short term collateralized loans of PFRS securities to brokers-dealers with a simultaneous agreement allowing PFRS to invest and receive earnings on the loan collateral for a loan rebate fee. All securities loans can be terminated on demand by either PFRS or the borrower, although the average term of such loans is one week.

Metropolitan West Securities, Inc. (MetWest) administers the securities lending program. MetWest is responsible for maintaining an adequate level of collateral in an amount equal to at least 102% of the market value of loaned U.S. government securities, common stock and other equity securities, bonds, debentures, corporate debt securities, notes, and

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

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mortgages or other obligations. Collateral received may include cash, letters of credit, or securities. If securities collateral is received, PFRS cannot pledge or sell the collateral securities unless the borrower defaults. The weighted average maturity of the loaned securities is August 19, 2009 while the weighted average maturity of the collateral not placed in deposits is March 15, 2018. Approximately 85% of the collateral is held in money market deposit accounts that are liquid on demand.

As of June 30, 2009, management believes that PFRS has minimized its credit risk exposure to borrowers because the amounts held by PFRS as collateral exceeded the securities loaned by PFRS. PFRS' contract with MetWest requires it to indemnify PFRS if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities borrowed) or fail to pay PFRS for income distributions by the securities' issuers while the securities are on loan.

The following table summarizes investments in securities lending transactions and collateral received as of June 30, 2009 (in thousands):

<b>Securities Lending</b>	
<b>Investments and Collateral Received (At Fair Value)</b>	
Securities on loan:	Amount
U.S. Government and agencies	\$ 9,157
U.S. Corporate bonds	9,601
U.S. Equity	82,801
Non - U.S. Equity	1,284
Total securities on loan	<u>\$ 102,843</u>
Invested cash collateral received:	
Money market	\$ 89,363
Certificates of deposit floating rate	3,003
U.S. corporate floating rate	8,915
Asset backed securities	3,934
Total Invested cash collateral received	<u>\$ 105,215</u>

**Fair Value Highly Sensitive to Change in Interest Rates:** The terms of a debt investment may cause its fair value to be highly sensitive to interest rate changes. PFRS has invested in collateralized mortgage obligations (CMOs), which are mortgage-backed bonds that pay pass-through rates with varying maturities. The fair values of CMOs are considered sensitive to interest rate changes because they have embedded options, which are triggers related to quantities of delinquencies or defaults in the loans backing the mortgage pool. If a balance of delinquent loans reaches a certain threshold, interest and principal that would be used to pay junior bondholders is instead directed to pay off the principal balance of senior bondholders, shortening the life of the senior bonds.

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

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The following table shows PFRS investments in CMOs as of June 30, 2009:

<u>Securities Name</u>	<u>Weighted Average Coupon Rate</u>	<u>Weighted Average Maturity</u>	<u>Fair Value</u>	<u>Percent of Total Investment Fair Value</u>
Commercial Mortgage Pass-Through	<u>6.05%</u>	<u>9/19/2028</u>	<u>\$ 1,098</u>	<u>0.34%</u>

**Discretely Presented Component Unit**

**Port of Oakland**

The Port's cash, cash equivalents, investments and deposits consisted of the following at June 30, 2009 (in thousands):

Cash on hand	\$ 146
Deposits in Escrow	1,575
Investments	<u>182,731</u>
Total Cash and Investments	<u>\$ 184,452</u>

Deposits in Escrow consist of amounts received from construction contractors that are deposited into an escrow account in-lieu of retention withheld from construction progress billings. Interest on these deposits accrues to the contractor.

**Investments**

Under the City of Oakland Charter, all income and revenue from the operation of the Port is to be deposited in the City Treasury. Unused bonds proceeds are on deposit with a Trustee for both reserves and construction funds. The investment of funds held by a Trustee is governed by the Amended and Restated Master Trust Indenture, dated as of April 1, 2006 (the Restated Indenture). There were no investments pertaining to the Intermediate Lien Debt. Escrow funds are on deposit with an escrow agent.

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

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At June 30, 2009 the Port had the following investments (in thousands):

	<u>Fair Value</u>	<u>Credit Rating</u>	<u>Maturity</u>	
			<u>Less than 1 Year</u>	<u>5 Years +</u>
U.S Treasury Notes	\$ 51,567	N/A	\$ 51,567	\$ -
Federal Agency Securities	114	AAA	114	-
Government Securities Money				
Market Mutual Funds	6,651	AAA	6,651	-
Guaranteed Investment Contracts	300	Not Rated	300	-
Bank Investment Contract	28,996	Not Rated	-	28,996
City Investment Pool	95,103	AAA	95,103	-
<b>Total Investment</b>	<b>\$ 182,731</b>		<b>\$ 153,735</b>	<b>\$ 28,996</b>

**Investments Authorized by Debt Agreements**

The following are the maximum maturities for each type of investment as allowed under the Trust Indenture and the applicable Supplemental Indenture for each bond issue:

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>
U.S Government Securities	None
U.S. Agency Obligations	None
Obligations of any State in the U.S	None
Prime Commercial Paper	270 days
FDIC Insured Deposits	None
Certificates of Deposits/Banker's Acceptances	None
Money Market Mutual Funds	None
State-sponsored Investment pools	None
Investment Contracts	None
Forward Delivery Agreement	None

**Interest Rate Risk**

This risk represents the possibility that an interest rate change could adversely affect an investment's fair value. In order to manage interest rate risk, it is the Port's policy that most bond proceeds are invested in investment contracts or U.S. Treasury securities and structured so that the entire amount of the investment is available if the need should arise, regardless of changes in interest rates.

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

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**Credit Risk**

Provisions of the Port's Trust Indenture limit the Port's investment to agreements or financial institutions that, at the time of investment, are rated Aaa by Moody's and AAA by Standard & Poor's (S&P). Providers must also maintain ratings of at least Aa3 by Moody's or AA- by S&P. All current providers either meet or exceed these minimums.

**Concentration of Credit Risk**

The Trust Indenture places no limit on the amount the Port may invest in any one issuer. Those that exceed 5% of the total investment are as follows.

<u>Investment</u>	<u>Investment Type</u>	<u>Percent of Investment</u>
U.S. Treasury Notes	U.S. Treasury Obligation	28.22%
Bayerische Landesbank	Bank Investment Contract	15.87%

**Custodial Credit Risk**

For investments, custodial credit risk is the risk that in the event of a failure of a depository financial institution or counterparty to a transaction, the ability to recover the value of the investments or collateral securities in the possession of an outside party may be doubtful. To protect against fraud and potential losses from the financial collapse of securities dealers, all securities owned by the Port shall be held in the name of the Port for safekeeping by a third party bank trust department, acting as an agent for the Port under the terms of the Restated Indenture. The carrying amount of Port bank investment contracts, deposits in escrow was \$30,571,000 at June 30, 2009. Bank balances and escrow deposits of \$841,000 at June 30, 2009 are insured or collateralized with securities held by the pledging financial institution's trust department in the Port's name. The remaining balance of \$29,730,000 as of June 30, 2009, was exposed to custodial credit risk by not being insured or collateralized.

**Cash and Investments with the City of Oakland**

Pursuant to the City Charter, Port operating revenues are deposited in the City Treasury. These funds are commingled in the City's investment pool. The Port receives a monthly interest allocation from investment earnings of the City based on the average daily balance on deposit and the earnings of the investments.

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

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**(4) INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

“Due to” and “due from” balances have primarily been recorded when funds overdraw their share of pooled cash and interfund loans. The amounts due from the Oakland Redevelopment Agency are related to advances and interfund loans made by the City for projects, loans and services. The receivable amounts in the Agency relate to project advances made by the Agency for the City. The internal service funds borrowing will be repaid over a reasonable period of time as described in Note 20. The composition of interfund balances as of June 30, 2009, is as follows (in thousands):

**DUE FROM/DUE TO OTHER FUNDS:**

<b>Receivables</b>	<b>Payable Fund</b>	<b>Amount</b>
General Fund	Oakland Redevelopment Agency	\$ 8,288
	Other Governmental Funds	10,708
	Internal Service Funds	50,785
<b>TOTAL</b>		<u>69,781</u>
Federal/State Grant Fund	Oakland Redevelopment Agency	<u>166</u>
Oakland Redevelopment Agency	General Fund	8,578
	Federal/State Grant Fund	3,366
	Other Governmental Funds	3,334
<b>TOTAL</b>		<u>15,278</u>
Other Governmental Funds	Oakland Redevelopment Agency	<u>3,069</u>
<b>TOTAL GOVERNMENTAL</b>		<u>88,294</u>
Internal Service Funds	Oakland Redevelopment Agency	64
<b>TOTAL</b>		<u>\$ 88,358</u>



**CITY OF OAKLAND**  
Notes to Basic Financial Statements, (continued)  
Year Ended June 30, 2009

**INTERFUND TRANSFERS:**

TRANSFERS OUT	TRANSFERS IN			
	General Fund	Municipal Capital Improvement	Other Governmental Funds	Total Governmental
General Fund	\$ -	\$ -	\$ 96,579	\$ 96,579
Oakland Redevelopment Agency	-	-	15,975	15,975
Other Governmental Funds	16,341	-	-	16,341
Sewer Service Fund	600	-	-	600
Non-Major Parks & Recreation Fund	100	500	-	600
<b>Total</b>	<b>\$ 17,041</b>	<b>\$ 500</b>	<b>\$ 112,554</b>	<b>\$ 130,095</b>

The \$96.6 million transferred from the General Fund consists of transfers made to provide funding for the following:

- \$10.6 million for the Kids' First Children's Program
- \$85.2 million for debt service payments
- \$0.6 million for contract compliance administration fee
- \$0.2 million for City-owned parcels of land in the Wildfire Prevention Assessment District

The \$16.0 million transferred from Oakland Redevelopment Agency to the Other Governmental Funds is for the repayment of the City Center Garage interfund loan.

The \$16.3 million transferred from Other Governmental Funds to the General Fund are for the following:

- \$2.6 million is a contribution from the Development Service Fund to the General Fund for interest, administrative and overhead costs incurred prior to the establishment of the Development Services Fund.
- \$12.5 million excess from 1985 Certificate of Participation debt payoff
- \$1.2 million excess after capital project closures

The \$0.6 million transfer from the Sewer Service Fund to the General Fund is to provide funds for City-wide lease payments.

The \$0.5 million transfer from the Parks & Recreation Fund to the Municipal Capital Improvement Fund is a one-time contribution.

The \$0.1 million transfer from the Parks & Recreation Fund to the General Fund is a one-time balancing measure for the General Fund budget.

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

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**INTERFUND LOANS:**

Certain interfund loans made from the General Fund to the ORA Governmental Fund have been removed as they are not expected to be repaid within a reasonable period of time. The loans continue to be obligations of the ORA, and will be recognized as other financing sources in the General Fund upon receipt. During the year, the City collected \$16,533,000 from the Agency for the City Center Garage/Central District of which \$15,975,457 was for the loan pay-off. The table below shows the total amount of interfund loan due as of June 30, 2009 (in thousands):

	Balance June 30, 2008	Additions	Deductions	Balance June 30, 2009
City Center Garage/Central District	\$ 16,533	-	16,533	\$ -
Oakland Center Project	13,737	816	700	13,853
Total	<u>\$ 30,270</u>	<u>\$ 816</u>	<u>\$ 17,233</u>	<u>\$ 13,853</u>

**(5) MEMORANDUMS OF UNDERSTANDING**

The City and the Port have Memorandums of Understanding (MOUs) relating to: general obligation bonds issued by the City for the benefit of the Port; various administrative, personnel, south airport police security, aircraft rescue and fire fighters, and financial services (Special Services); police, fire, public street cleaning and maintenance, and similar services (General Services) provided by the City to the Port; and Lake Merritt payments. Payments are made upon execution of appropriate agreements and periodic findings and authorizations from the Board.

**Special Services**

Payments for Special Services are treated as a cost of Port operations pursuant to the City Charter Section 717(3) Third Clause and have priority over certain other expenditures of Port revenues. Special Services totaled \$7,103,000 and are included in "Operating Expenses." At June 30, 2009, \$8,987,000 was accrued as a current liability by the Port and as a receivable by the City.

**General Services and Lake Merritt**

Payments for General Services from the City are payable only to the extent the Port determines annually that surplus monies are available under the Charter for such purposes. As of June 30, 2009, the Port accrued approximately \$2,435,000 of payments for General

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

Services as a current liability and by the City as a receivable. Additionally, subject to certain conditions, the Port accrued approximately \$1,928,000 to reimburse the City for General Services for net City expenditures for Lake Merritt Tideland Trust properties in 2009. Subject to adequate documentation from the City, and subject to availability of surplus monies, the Port expects that it will continue to reimburse the City annually for General Services and Lake Merritt Tideland Trust purpose costs.

**Lease with the Port**

The Port has leased property to the City under a 66-year lease, which is expressed in terms of the Amended and Restated Lease between the Port and the City for the development and operation of the public golf course by the City. The lease commenced in 2003 when the Port delivered a completed 164.90 acres golf course to the City to replace the City's golf course that was destroyed when the Port used the site as a dredge disposal site. The golf course is leased to a third party and the minimum annual rental is \$269,760 payable in twelve installments of \$22,480 per month, which is then split 50/50 between the Port and the City.

**(6) NOTES AND LOANS RECEIVABLE**

The composition of the City's notes and loans receivable as of June 30, 2009, is as follows (in thousands):

Type of Loan	General Fund	Federal/State Grant Fund	Oakland Redevelopment Agency	Other Governmental Funds	Total Governmental Funds/ Governmental Activities
Pass-through loans	\$ 8,137	\$ 3,349	\$ -	\$ 692	\$ 12,178
Loans to Oakland Hotel Association, LTD	12,038	-	-	-	12,038
HUD Loans	-	66,165	-	-	66,165
Economic Development Loans and Other	1,932	43,964	190,551	27,907	264,354
Less: Allowance for uncollectable accounts	(107)	(3,090)	(46,728)	(60)	(49,985)
<b>TOTAL LOANS, NET</b>	<b>\$ 22,000</b>	<b>\$ 110,388</b>	<b>\$ 143,823</b>	<b>\$ 28,539</b>	<b>\$ 304,750</b>

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

**(7) CAPITAL ASSETS AND LEASES**

**Primary Government**

Capital assets activity of the primary government for the year ended June 30, 2009, is as follows (in thousands):

	Balance July 1, 2008	Additions	Deletions	Transfers	Balance June 30, 2009
<b>Governmental activities:</b>					
Capital assets, not being depreciated:					
Land	\$ 81,796	\$ -	\$ 782	\$ 66	\$ 81,080
Museum collections	392	55	-	-	447
Construction in progress	49,508	57,778	(11)	(42,924)	64,373
<b>TOTAL CAPITAL ASSETS, NOT BEING DEPRECIATED</b>	<b>131,696</b>	<b>57,833</b>	<b>771</b>	<b>(42,858)</b>	<b>145,900</b>
Capital assets, being depreciated:					
Facilities and improvements	711,536	8,316	-	10,341	730,193
Furniture, machinery and equipment	168,174	7,509	1,429	679	174,933
Infrastructure	469,534	7,141	2,320	31,838	506,193
<b>TOTAL CAPITAL ASSETS, BEING DEPRECIATED</b>	<b>1,349,244</b>	<b>22,966</b>	<b>3,749</b>	<b>42,858</b>	<b>1,411,319</b>
Less accumulated depreciation:					
Facilities and improvements	288,505	21,055	-	-	309,560
Furniture, machinery and equipment	132,797	10,241	1,427	-	141,611
Infrastructure	160,321	16,402	1,513	-	175,210
<b>TOTAL ACCUMULATED DEPRECIATION</b>	<b>581,623</b>	<b>47,698</b>	<b>2,940</b>	<b>-</b>	<b>626,381</b>
<b>TOTAL CAPITAL ASSETS, BEING DEPRECIATED, NET GOVERNMENTAL ACTIVITIES</b>	<b>767,621</b>	<b>(24,732)</b>	<b>809</b>	<b>42,858</b>	<b>784,938</b>
<b>CAPITAL ASSETS, NET</b>	<b>\$ 899,317</b>	<b>\$ 33,101</b>	<b>\$ 1,580</b>	<b>\$ -</b>	<b>\$ 930,838</b>

(continued)

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

	Balance July 1, 2008	Additions	Deletions	Transfers	Balance June 30, 2009
<b>Business-type activities:</b>					
<b>Sewer fund:</b>					
Capital assets, not being depreciated:					
Land	\$ 4	\$ -	\$ -	\$ -	\$ 4
Construction in progress	9,781	9,915	1	(8,145)	11,550
<b>TOTAL CAPITAL ASSETS, NOT BEING DEPRECIATED</b>	<b>9,785</b>	<b>9,915</b>	<b>1</b>	<b>(8,145)</b>	<b>11,554</b>
Capital assets, being depreciated:					
Facilities and improvements	306	-	-	-	306
Furniture, machinery and equipment	755	122	-	-	877
Sewer and storm drains	206,817	1,200	-	8,145	216,162
<b>TOTAL CAPITAL ASSETS, BEING DEPRECIATED</b>	<b>207,878</b>	<b>1,322</b>	<b>-</b>	<b>8,145</b>	<b>217,345</b>
Less accumulated depreciation:					
Facilities and improvements	112	20	-	-	132
Furniture, machinery and equipment	724	14	-	-	738
Sewer and storm drains	73,510	4,230	-	-	77,740
<b>TOTAL ACCUMULATED DEPRECIATION</b>	<b>74,346</b>	<b>4,264</b>	<b>-</b>	<b>-</b>	<b>78,610</b>
<b>TOTAL CAPITAL ASSETS, BEING DEPRECIATED, NET</b>	<b>133,532</b>	<b>(2,942)</b>	<b>-</b>	<b>8,145</b>	<b>138,735</b>
<b>SEWER FUND CAPITAL ASSETS, NET</b>	<b>143,317</b>	<b>6,973</b>	<b>1</b>	<b>-</b>	<b>150,289</b>
<b>Other Proprietary Funds:</b>					
Capital assets, not being depreciated:					
Land	218	-	-	-	218
Construction in progress	539	762	-	(1,301)	-
<b>TOTAL CAPITAL ASSETS, NOT BEING DEPRECIATED</b>	<b>757</b>	<b>762</b>	<b>-</b>	<b>(1,301)</b>	<b>218</b>
Capital assets, not being depreciated:					
Facilities and improvements	2,264	279	-	1,301	3,844
Furniture, machinery & equipment	369	-	-	-	369
Infrastructure	85	-	-	-	85
<b>TOTAL CAPITAL ASSETS, BEING DEPRECIATED</b>	<b>2,718</b>	<b>279</b>	<b>-</b>	<b>1,301</b>	<b>4,298</b>
Less accumulated depreciation:					
Facilities and improvements	781	206	-	-	987
Furniture, machinery & equipment	277	19	-	-	296
Infrastructure	3	6	-	-	9
<b>TOTAL ACCUMULATED DEPRECIATION</b>	<b>1,061</b>	<b>231</b>	<b>-</b>	<b>-</b>	<b>1,292</b>
<b>TOTAL CAPITAL ASSETS, BEING DEPRECIATED</b>	<b>1,657</b>	<b>48</b>	<b>-</b>	<b>1,301</b>	<b>3,006</b>
<b>OTHER PROPRIETARY FUNDS CAPITAL ASSETS, NET</b>	<b>2,414</b>	<b>810</b>	<b>-</b>	<b>-</b>	<b>3,224</b>
<b>TOTAL BUSINESS-TYPE ACTIVITIES CAPITAL ASSETS, NET</b>	<b>\$ 145,731</b>	<b>\$ 7,783</b>	<b>\$ 1</b>	<b>\$ -</b>	<b>\$ 153,513</b>

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

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Depreciation expense was charged to functions/programs of the primary government as follows (in thousands):

**Governmental Activities:**

General Government	\$ 3,973
Public Safety	3,452
Life Enrichment	11,916
Community and Economic Development	9,764
Public Works	14,453
Capital assets held by internal service funds that are charged to various functions based on their usage of the assets	4,140
<b>TOTAL</b>	<b><u>\$ 47,698</u></b>

**Business-Type Activities:**

Sewer	\$ 4,264
Parks and Recreation	231
	<b><u>\$ 4,495</u></b>

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

**Discretely Presented Component Units**

**Port of Oakland**

Capital assets activity for the Port for the year ended June 30, 2009, is as follows (in thousands):

	Balance July 1, 2008	Additions	Adjustments & Retirements	Transfers of Completed Construction	Balance June 30, 2009
Capital assets, not being depreciated:					
Land	\$ 494,805	\$ 12,107	\$ -	\$ -	\$ 506,912
Construction in progress	121,976	47,070	-	(41,332)	127,714
<b>TOTAL CAPITAL ASSETS, NOT BEING DEPRECIATED</b>	<b>616,781</b>	<b>59,177</b>	<b>-</b>	<b>(41,332)</b>	<b>634,626</b>
Capital assets, being depreciated:					
Building and improvements	787,775	-	(606)	22,394	809,563
Container cranes	177,980	-	-	-	177,980
Systems and structures	1,515,987	33	1,106	18,289	1,535,415
Other equipment	72,760	1,504	(1,834)	649	73,079
<b>TOTAL CAPITAL ASSETS, BEING DEPRECIATED</b>	<b>2,554,502</b>	<b>1,537</b>	<b>(1,334)</b>	<b>41,332</b>	<b>2,596,037</b>
Less accumulated depreciation:					
Building and improvements	340,187	32,627	30	-	372,784
Container cranes	78,167	6,400	-	-	84,567
Systems and structures	381,199	51,902	(30)	-	433,131
Other equipment	31,417	6,009	1,320	-	36,106
<b>TOTAL ACCUMULATED DEPRECIATION</b>	<b>830,970</b>	<b>96,938</b>	<b>1,320</b>	<b>-</b>	<b>926,588</b>
<b>TOTAL CAPITAL ASSETS, BEING DEPRECIATED, NET</b>	<b>1,723,532</b>	<b>95,401</b>	<b>(14)</b>	<b>41,332</b>	<b>1,669,449</b>
<b>CAPITAL ASSETS, NET</b>	<b>\$ 2,340,313</b>	<b>\$ (36,224)</b>	<b>\$ (14)</b>	<b>\$ -</b>	<b>\$ 2,304,075</b>

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

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**Capital Leases**

The capital assets leased to others at June 30, 2009, consist of the following (in thousands):

Land	\$ 270,640
Container cranes	177,980
Building and other facilities	<u>1,157,605</u>
Total	1,606,225
Less accumulated depreciation	<u>(435,273)</u>
Capital assets, net, on lease	<u><u>\$ 1,170,952</u></u>

**Operating Leases**

A major portion of the Port's capital assets is held for lease. Leased assets include maritime facilities, aviation facilities, office and commercial space, and land. The majority of the leases are classified as operating leases.

Certain maritime facilities are leased under agreements, which provide the tenants with preferential, but nonexclusive, use of the facilities. Certain leases provide for rentals based on gross revenues of the leased premises or, in the case of marine terminal facilities, on annual usage of the facilities. Such leases generally provide for minimum rentals and certain preferential assignments provide for both minimum and maximum rentals.

A summary of revenues from long-term leases for the year ended June 30, 2009, is as follows (in thousands):

Minimum non-cancelable rentals, including preferential assignments	\$ 152,532
Contingent rentals in excess of minimums	16,094
Secondary use of facilities leased under preferential assignments	<u>334</u>
Total	<u><u>\$ 168,960</u></u>



**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

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Minimum future rental revenues for years ending June 30 under non-cancelable operating leases having an initial term in excess of one year are as follows (in thousands):

Year	Rental Revenues
2010	\$ 149,115
2011	142,754
2012	143,630
2013	129,094
2014	108,861
2015 - 2019	362,474
2020 - 2024	139,994
2025 - 2029	88,114
2030 - 2034	45,477
2035 - 2039	13,299
2040 - 2044	10,525
2045 - 2049	6,761
Thereafter through 2072	20,731
Total	<u>\$ 1,360,829</u>

The Port turned over the operation of its Marina to a private company through a long-term financing lease and operating agreement on May 1, 2004. Minimum future lease payments to be received for the succeeding years ending June 30 are as follows:

Year	Lease Revenues
2010	\$ 346
2011	357
2012	367
2013	378
2014	390
2015 - 2019	2,131
2020 - 2024	2,470
2025 - 2029	2,862
2030 - 2034	3,318
2035 - 2039	3,849
2040 - 2044	4,460
2045 - 2049	5,170
Thereafter through 2054	5,778
Total	<u>\$ 31,876</u>

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

**(8) PROPERTY HELD FOR RESALE**

A summary of changes in Property Held for Resale is as follows (in thousands):

	Balance July 1, 2008	Increases	Decreases	Balance June 30, 2009
Property held for resale	\$ 121,735	\$ 8,363	\$ 228	\$ 129,870

The increase in Property Held for Resale represents the purchases of the Telegraph Parking Garage from the City with a carrying value of \$0.78 million, \$1.42 million in the Coliseum project area for the development of the Coliseum Transit Village, \$6.16 million for the development in the Central City East project area, and the property sale for \$0.23 million in the Central City East project area.

**(9) ACCOUNTS PAYABLE AND ACCRUED LIABILITIES PAYABLE**

Accounts payable and accrued liabilities payable as of June 30, 2009, for the City's individual major funds, non-major funds in the aggregate, business-type activities - enterprise fund and internal service funds, are as follows (in thousands):

	Accounts Payable	Checks Payable	Accrued Payroll/Employee Benefits	Total
<b>Governmental funds:</b>				
General	\$ 20,199	\$ 8,150	\$ 97,462	\$ 125,811
Federal/State grant fund	3,571	-	921	4,492
Oakland Redevelopment Agency	3,534	-	-	3,534
Municipal Capital Improvement Fund	1,743	-	87	1,830
Other governmental funds	5,848	-	-	5,848
<b>TOTAL</b>	<b>34,895</b>	<b>8,150</b>	<b>98,470</b>	<b>141,515</b>
<b>Governmental activities -</b>				
Internal service funds	1,120	-	-	1,120
<b>TOTAL</b>	<b>\$ 36,015</b>	<b>\$ 8,150</b>	<b>\$ 98,470</b>	<b>\$ 142,635</b>
<b>Business-type activities - Enterprise Funds:</b>				
Sewer Service	\$ 550	-	575	\$ 1,125

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

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Accounts payable and accrued liabilities for the pension trust funds and private purpose trust funds at June 30, 2009, are as follows (in thousands):

Accounts payable	\$ 12
Investments payable	8,494
Accrued investment management fees	361
Member benefits payable	<u>6,009</u>
Total Pension Trust Funds Accounts Payable and Accrued Liabilities	14,876
Private Purpose Trust Fund Accounts Payable	<u>586</u>
Total Accounts Payable and Accrued Liabilities	<u><u>\$ 15,462</u></u>

**(10) DEFERRED REVENUE**

Governmental funds report deferred revenue in connection with unearned revenue and receivables for revenues not considered available to liquidate liabilities of the current period. Governmental and enterprise funds also defer revenue recognition in connection with resources that have been received but not yet earned.

At June 30, 2009, the various components of deferred revenue and unearned revenue reported were as follows (in thousands):

	<u>Unavailable</u>	<u>Unearned</u>
<b>Governmental Funds:</b>		
General Fund	\$ 25,181	\$ 5,472
Federal and State Grants Fund	112,226	347
Oakland Redevelopment Agency	162,083	-
Other Governmental Funds	<u>35,231</u>	<u>-</u>
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<u><u>\$ 334,721</u></u>	<u><u>\$ 5,819</u></u>
<b>Business-type activities - Enterprise Funds:</b>		
Sewer Service	<u><u>\$ -</u></u>	<u><u>\$ 26</u></u>

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

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**(11) TAX AND REVENUE ANTICIPATION NOTES PAYABLE**

The City issued tax and revenue anticipation notes in advance of property tax collections. The notes were used to satisfy General Fund obligations and carried an approximate effective interest rate of 3.00% for series A notes and 3.75% for series B notes (federally taxable). Principal and interest were paid on June 30, 2009.

The short-term debt activity for the year ended June 30, 2009, is as follows (in thousands):

<u>2008 - 2009 Tax &amp; Revenue Anticipation Notes</u>	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>
Series A	\$ -	\$ 70,000	\$ (70,000)	\$ -
Series B (Federally Taxable)	-	35,705	(35,705)	-
TOTAL	<u>\$ -</u>	<u>\$ 105,705</u>	<u>\$ (105,705)</u>	<u>\$ -</u>

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

**(12) LONG-TERM OBLIGATIONS**

**Long-term Obligations**

The following is a summary of long-term obligations as of June 30, 2009 (in thousands):

<b>Governmental Activities</b>			
<b>Type of Obligation</b>	<b>Final Maturity Year</b>	<b>Remaining Interest Rates</b>	<b>Amount</b>
General obligation bonds (A)	2036	2.50 - 5.00%	\$ 317,188
Tax allocation, Housing and Other Bonds (B)	2037	2.50 - 8.03%	505,765
Certificate of participation (C)	2012	4.00 - 6.55%	10,375
Lease revenue bonds (C)	2026	3.60 - 5.50%	296,985
Pension obligation bonds (D)	2022	6.09 - 7.31%	248,455
Accreted interest (C) and (D)			148,580
City guaranteed special assessment district bonds (D)	2025	4.60 - 6.70%	5,645
Notes payable (C) and (E)	2016	1.70 - 8.27%	17,610
Capital leases (C) and (E)	2022	3.54 - 5.52%	23,235
Accrued vacation and sick leave (C)			36,260
Estimated liability for self-insurance (C)			77,973
Estimated claims payable (C)			49,237
Estimated environmental cost (B) and (C)			8,009
Pledge obligation for Coliseum Authority debt (C)			79,350
Net OPEB obligation (C)			85,758
<b>GOVERNMENTAL ACTIVITIES TOTAL</b>			
<b>LONG-TERM OBLIGATIONS</b>			<b>1,910,425</b>
<b>DEFERRED AMOUNTS:</b>			
Bond issuance premiums			28,691
Bond refunding loss			(30,858)
<b>GOVERNMENTAL ACTIVITIES TOTAL</b>			
<b>LONG-TERM OBLIGATIONS, NET</b>			<b>\$ 1,908,258</b>

**Debt service payments are made from the following sources:**

- (A) Property tax recorded in the debt service funds
- (B) Property tax allocated to the Oakland Redevelopment Agency based on increased assessed valuations in the project area
- (C) Revenues recorded in the general fund
- (D) Property tax voter approved debt
- (E) Revenues recorded in the special revenue funds

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

**Business-Type Activities**

<b>Type of Obligation</b>	<b>Final Maturity Year</b>	<b>Remaining Interest Rates</b>	<b>Amount</b>
Sewer fund - Notes payable	2014	3.00 - 3.50%	\$ 2,540
Sewer fund - Bonds	2029	3.00 - 5.25%	56,090
Unamortized Bond Premium			<u>2,357</u>
<b>BUSINESS-TYPE ACTIVITIES -</b>			
<b>TOTAL LONG-TERM OBLIGATIONS</b>			<u><u>\$ 60,987</u></u>

**Component Unit - Port of Oakland**

<b>Type of Obligation</b>	<b>Final Maturity Year</b>	<b>Remaining Interest Rates</b>	<b>Amount</b>
Parity bonds	2033	3.00 - 5.875%	\$ 1,434,257
Notes and loans	2030	0.1 - 5.00%	<u>87,573</u>
Total			1,521,830
Self - Insurance liability for workers' compensation			6,137
General liability			2,571
Accrued vacation, sick leave and compensatory time			6,725
Environmental remediation and other liabilities			22,227
Other post employment benefits			<u>5,443</u>
Total			1,564,933
Unamortized bond discounts and premiums, net			19,212
Deferred loss on refunding			<u>(19,192)</u>
<b>COMPONENT UNIT TOTAL LONG-TERM OBLIGATIONS</b>			<u><u>\$ 1,564,953</u></u>

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

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**Revenues Pledged for the Repayment of Debt Service**

**Tax Allocation Bonds**

The Tax Allocation Bonds (TAB), which are comprised of Series 1992, Series 2003, Series 2005, Series 2006T, Series 2009T, Series 2006A TE/T, Series 2006B TE/T, and Series 2006C TE/T, are all secured primarily by a pledge of tax increment revenues, consisting of a portion of all taxes levied upon all taxable properties within each of the redevelopment project areas, and are equally and ratably secured on a parity with each TAB series. The total projected tax increment revenue through the period of the bonds is approximately \$3,456,252,933. These revenues have been pledged until the year 2036, the final maturity date of the bonds. Debt service payments for these TABs is payable semi-annually on March 1 and September 1. The total principal and interest remaining on these TABs is \$693,869,724 which is 20.1 percent of the total projected tax increment revenues. The pledged tax increment revenue recognized during the year ended June 30, 2009 was \$131,536,000, of which \$48,647,152 was used to pay debt service.

**Housing Bonds**

The Housing Set-Aside TAB, which comprised of Series 2000T, Series 2006A, and Series 2006A-T are equally and ratably secured by the pledge and lien of the 20% tax increment revenue set-aside and voluntary 5% for the low and moderate income housing fund. The total projected 20% set-aside and 5% voluntary revenue through the period of the bonds is approximately \$932,571,602 and \$233,142,901, respectively. These revenues have been pledged until the year 2037, the final maturity date of the bonds. Debt service payment for these TABs is payable semi-annually on February 1 and August 1. The total principal and interest remaining on these Housing TABs is \$155,472,013, which is 13.3 percent of the total projected set-aside and voluntary tax increment revenues. The pledged 20% set-aside and 5% voluntary tax increment revenue recognized during the year ended June 30, 2009 was \$32,884,000, of which \$7,512,084 was used to pay debt service.

**Debt Compliance**

There are a number of limitations and restrictions contained in the various bond indentures held by the City and Agency. Management believes that the City and Agency are in compliance.

**Legal Debt Limit and Legal Debt Margin**

As of June 30, 2009, the City's debt limit (3.75% of valuation subject to taxation) was \$1,156,818,628. The total amount of debt applicable to the debt limit was \$317,188,697. The resulting legal debt margin was \$839,629,931.

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

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**Interest Rate Swap**

**Oakland Joint Powers Financing Authority Lease Revenue Bonds, 1998 Series A1/A2**  
*Objective of the interest rate swap.* On January 9, 1997, the City entered into a forward-starting synthetic fixed rate swap agreement (the "Swap") with Goldman Sachs Mitsui Marine Derivatives Products, U.S., L.P. (the "Counterparty") in connection with the \$187,500,000 Oakland Joint Powers Financing Authority (the "Authority") Lease Revenue Bonds, 1998 Series A1/A2 (the "1998 Lease Revenue Bonds"). Under the swap agreement, which effectively changed the City's variable interest rate on the bonds to a synthetic fixed rate, the City would pay the Counterparty a fixed rate of 5.6775% through the end of the swap agreement in 2021 and receive a variable rate based on the Bond Market Association index. The City received an upfront payment from the Counterparty of \$15 million for entering into the Swap.

On March 21, 2003, the City amended the swap agreement to change the index on which the Swap is based from the Bond Market Association index to a rate equal to 65% of the 1-month London Interbank Offer Rate ("LIBOR"). This amendment resulted in an additional upfront payment from the Counterparty to the City of \$5.975 million.

On June 21, 2005, all of the outstanding 1998 Lease Revenue Bonds were defeased by the Oakland Joint Powers Financing Authority Refunding Revenue Bonds, 2005 Series A-1, A-2 and B ("Series 2005 A & B Bonds"). \$143,093,669 was deposited with the trustee to defease the 1998 Lease Revenue Bonds. However, the Swap associated with the 1998 Lease Revenue Bonds still remains in effect. This is now a stand-alone swap with no association to any bond. The amortization schedule is as follows:

Calculation period (Jul 31)	Notional Amount	Fixed Rate To Counterparty	65% of LIBOR	Net Rate
2009	\$ 93,200,000	5.6775%	0.2007% <sup>1</sup>	5.4768%
2010	84,900,000	5.6775%	0.2007% <sup>2</sup>	5.4768%
2011	76,800,000	5.6775%	0.2007% <sup>2</sup>	5.4768%
2012	68,900,000	5.6775%	0.2007% <sup>2</sup>	5.4768%
2013	61,200,000	5.6775%	0.2007% <sup>2</sup>	5.4768%
2014	53,700,000	5.6775%	0.2007% <sup>2</sup>	5.4768%
2015	46,400,000	5.6775%	0.2007% <sup>2</sup>	5.4768%
2016	39,300,000	5.6775%	0.2007% <sup>2</sup>	5.4768%
2017	32,500,000	5.6775%	0.2007% <sup>2</sup>	5.4768%
2018	25,800,000	5.6775%	0.2007% <sup>2</sup>	5.4768%
2019	19,300,000	5.6775%	0.2007% <sup>2</sup>	5.4768%
2020	12,800,000	5.6775%	0.2007% <sup>2</sup>	5.4768%
2021	6,400,000	5.6775%	0.2007% <sup>2</sup>	5.4768%

<sup>1</sup> Rate is as of 1-month LIBOR on June 30, 2009

<sup>2</sup> Rates are projections, LIBOR rate fluctuates daily



**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

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*Terms.* The swap agreement terminates on July 31, 2021, and has a notional amount as of June 30, 2009 of \$93,200,000. The notional amount of the swap declines through 2021. Under the Swap, the City pays the counterparty a fixed payment of 5.6775% and receives a variable payment computed at 65% of LIBOR rate (total rate not to exceed 12%). The City's payments to the counterparty under the Swap agreement are insured by the third party bond insurer.

*Fair Value.* Because interest rates have declined since the execution of the Swap, the Swap had a negative fair value of \$18,981,573 as of June 30, 2009. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the Swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the Swap.

*Credit Risk.* The issuer and the counterparty take a credit risk to each other over the life of the swap agreement. This is the risk that either the issuer or the counterparty will fail to meet its contractual obligations under the swap agreement. The Counterparty was rated Aa1 by Moody's Investors Service, and AAA by Standard and Poor's as of June 30, 2009. To mitigate the potential for credit risk, if the counterparty's credit quality falls below "A3" by Moody's Investors Service or "A-" by Standard and Poor's, the swap agreement provides the counterparty, the City, the bond insurer for the Bonds and a third party collateral agent to execute a collateral agreement within 30 days of such a downgrade.

*Termination Risk.* An interest rate swap has some degree of termination risk. Linked to counterparty risk, a termination of the swap will result in a payment being made or received by the City depending on the then prevailing interest rate environment. The City may terminate the Swap if the counterparty fails to perform under the terms of the contract. The City also may terminate the Swap if the counterparty fails to execute a collateral agreement satisfactory to the City and the bond insurer within 30 days of the counterparty's ratings falling below "A3" by Moody's Investors Service or "A-" by Standard and Poor's.

The counterparty may terminate the Swap if the City fails to perform under the terms of the contract. The counterparty also may terminate the Swap if the City falls below "Baa3" by Moody's Investors Service or "BBB-" by Standard and Poor's. If at the time of termination the Swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the Swap's fair value.

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

**Changes in Long-term Obligations**

The changes in long-term obligations for the year ended June 30, 2009, are as follows (in thousands):

**Governmental Activities**

	Balance at July 1, 2008	Additional obligations, interest accretion and net increases (decreases)	Current maturities, retirements and net decreases (increases)	Balance at June 30, 2009	Amounts due within one year
<b>Bonds Payable:</b>					
General obligation bonds	\$ 331,528	\$ -	\$ 14,340	\$ 317,188	\$ 15,006
Tax allocation, Housing and Other bonds	496,630	38,755	29,620	505,765	16,865
Certificate of participation	40,495	-	30,120	10,375	3,165
Lease revenue bonds	323,340	-	26,355	296,985	26,315
Pension obligation bonds	282,705	-	34,250	248,455	37,860
City guaranteed special assessment district bonds	6,200	-	555	5,645	300
Accreted interest on appreciation bonds	125,743	22,837	-	148,580	-
Less deferred amounts:					
Bond issuance premiums	32,204	(779)	2,734	28,691	2,777
Bond refunding loss	(34,658)	-	(3,800)	(30,858)	(3,806)
<b>TOTAL BONDS PAYABLE</b>	<b>1,604,187</b>	<b>60,813</b>	<b>134,174</b>	<b>1,530,826</b>	<b>98,482</b>
Notes payable	19,045	-	1,435	17,610	2,015
Capital Leases	26,968	1,473	5,206	23,235	4,752
<b>TOTAL NOTES &amp; LEASES</b>	<b>46,013</b>	<b>1,473</b>	<b>6,641</b>	<b>40,845</b>	<b>6,767</b>
<b>Other Long-Term Liabilities</b>					
Accrued vacation and sick leave	35,646	54,401	53,787	36,260	27,883
Pledge obligation for Coliseum Authority debt	82,450	-	3,100	79,350	3,350
Estimated environmental cost	8,980	852	1,823	8,009	3,103
Estimated liability for self-insurance	80,382	22,044	24,453	77,973	17,774
Estimated claims payable	50,242	12,551	13,556	49,237	16,962
Net OPEB obligation	43,668	54,564	12,474	85,758	-
<b>TOTAL OTHER LONG-TERM LIABILITIES</b>	<b>301,368</b>	<b>144,412</b>	<b>109,193</b>	<b>336,587</b>	<b>69,072</b>
<b>TOTAL GOVERNMENTAL ACTIVITIES - LONG-TERM OBLIGATIONS</b>	<b>\$ 1,951,568</b>	<b>\$ 206,698</b>	<b>\$ 250,008</b>	<b>\$ 1,908,258</b>	<b>\$ 174,321</b>

Internal service funds predominantly serve the governmental funds and therefore, the long-term liabilities of these funds are included as part of the above totals for governmental activities. At June 30, 2009, \$7,812,564 of capital leases related to the internal service funds are included in the above amounts.

**CITY OF OAKLAND**  
Notes to Basic Financial Statements, (continued)  
Year Ended June 30, 2009

**Business-Type Activities**

	Balance at July 1, 2008	Current maturities, retirements and net decreases	Balance at June 30, 2009	Amounts due within one year
Sewer fund - Notes payable	\$ 3,346	\$ 806	\$ 2,540	\$ 833
Sewer fund - Bonds	57,720	1,630	56,090	1,710
Unamortized bond premium	2,475	118	2,357	118
Total	<u>\$ 63,541</u>	<u>\$ 2,554</u>	<u>\$ 60,987</u>	<u>\$ 2,661</u>

**Component Unit - Port of Oakland**

	Balance at July 1, 2008	Additional obligations, interest accretion and net increases	Current maturities, retirements and net decreases	Balance at June 30, 2009	Amounts due within one year
Senior & Intermediate bonds	\$ 1,465,912	\$ -	\$ 31,655	\$ 1,434,257	\$ 35,412
Notes and loans	84,847	25,340	22,614	87,573	217
Total	1,550,759	25,340	54,269	1,521,830	35,629
Self - insurance workers'					
compensation	6,000	962	825	6,137	6,137
General liability	3,925	1,131	2,485	2,571	-
Accrued vacation, sick leave and compensatory time	7,497	1,523	2,295	6,725	1,976
Environmental remediation and others	15,324	11,656	4,753	22,227	4,194
Other post employment benefits	7,754	10,019	12,330	5,443	5,443
Unamortized bond discount/ premium, net	21,488	445	2,721	19,212	3,210
Deferred loss on refunding	(19,984)	-	(792)	(19,192)	(2,671)
TOTAL DEBT	<u>\$ 1,592,763</u>	<u>\$ 51,076</u>	<u>\$ 78,886</u>	<u>\$ 1,564,953</u>	<u>\$ 53,918</u>

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

**Repayment Schedule**

The annual repayment schedules for all long-term debt as of June 30, 2009, are as follows (in thousands):

	2010	2011	2012	2013	2014	2015-2019	2020-2024	2025-2029	2030-2034	2035-2039	Total
<b>Governmental-type Activities:</b>											
General obligation bonds:											
Principal	\$ 15,006	\$ 15,762	\$ 16,587	\$ 17,451	\$ 18,378	\$ 98,454	\$ 74,734	\$ 30,371	\$ 27,970	\$ 2,475	\$ 317,188
Interest	15,398	14,688	13,936	13,143	12,302	47,860	23,907	12,076	4,028	168	157,506
Certificate of participation:											
Principal	3,165	3,315	3,895	-	-	-	-	-	-	-	10,375
Interest	510	361	195	-	-	-	-	-	-	-	1,066
Lease revenue bonds:											
Principal	26,315	27,870	32,270	33,680	35,295	81,815	34,500	25,240	-	-	296,985
Interest	13,600	12,354	11,095	9,728	8,155	22,660	10,795	1,935	-	-	90,322
Pension obligation bonds:											
Principal	37,860	14,959	20,860	19,923	18,881	82,155	53,817	-	-	-	248,455
Interest	1,321	25,346	17,515	19,632	21,884	140,950	149,773	-	-	-	376,421
Special assessments bonds:											
Principal	300	295	300	275	285	1,650	2,075	465	-	-	5,645
Interest	301	285	269	253	238	935	422	13	-	-	2,716
Tax allocation, Housing and Other bonds:											
Principal	16,865	19,365	20,365	21,645	23,580	130,810	118,055	47,240	61,880	45,960	505,765
Interest	27,422	27,099	26,039	24,929	23,712	97,243	56,052	36,313	21,231	3,726	343,766
Notes payable:											
Principal	2,015	2,180	2,355	2,525	2,705	5,830	-	-	-	-	17,610
Interest	936	871	799	721	457	594	-	-	-	-	4,378
Capital leases											
Principal	4,752	3,915	3,267	1,956	2,049	5,672	1,624	-	-	-	23,235
Interest	1,009	845	667	531	437	1,010	117	-	-	-	4,616
<b>TOTAL PRINCIPAL</b>	<b>\$ 106,278</b>	<b>\$ 87,661</b>	<b>\$ 99,899</b>	<b>\$ 97,455</b>	<b>\$ 101,173</b>	<b>\$ 406,386</b>	<b>\$ 284,805</b>	<b>\$ 103,316</b>	<b>\$ 89,850</b>	<b>\$ 48,435</b>	<b>\$ 1,425,258</b>
<b>TOTAL INTEREST</b>	<b>\$ 60,497</b>	<b>\$ 81,849</b>	<b>\$ 70,515</b>	<b>\$ 68,937</b>	<b>\$ 67,185</b>	<b>\$ 311,252</b>	<b>\$ 241,066</b>	<b>\$ 50,337</b>	<b>\$ 25,259</b>	<b>\$ 3,894</b>	<b>\$ 980,791</b>

For governmental activities the specific year for payment of the pledge obligation, environmental costs, estimated accrued vacation, sick leave, estimated liability for self-insurance, estimated claims, and the net OPEB obligation are not practicable to determine.

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

(continued)

	2010	2011	2012	2013	2014	2015-2019	2020-2024	2025-2029	Total
<b>Business-type Activities:</b>									
Sewer revenue bonds:									
Principal	\$ 1,710	\$ 1,800	\$ 1,885	\$ 1,985	\$ 2,090	\$ 12,000	\$ 15,205	\$ 19,415	\$ 56,090
Interest	2,771	2,685	2,595	2,499	2,395	10,410	7,209	3,007	33,571
Sewer notes payable:									
Principal	833	860	274	282	291	-	-	-	2,540
Interest	82	54	25	17	9	-	-	-	187
TOTAL PRINCIPAL	\$ 2,543	\$ 2,660	\$ 2,159	\$ 2,267	\$ 2,381	\$ 12,000	\$ 15,205	\$ 19,415	\$ 58,630
TOTAL INTEREST	\$ 2,853	\$ 2,739	\$ 2,620	\$ 2,516	\$ 2,404	\$ 10,410	\$ 7,209	\$ 3,007	\$ 33,758

**Component Unit - Port of Oakland**

Annual debt service requirements to maturity for all bonds and loans outstanding as of June 30, 2009, are as follows (in thousands):

Year Ending June 30	Principal	Interest	Total
2010*	\$ 35,629	\$ 78,930	\$ 114,559
2011*	38,540	71,554	110,094
2012*	46,243	69,642	115,885
2013	74,626	70,836	145,462
2014	77,175	66,972	144,147
2015 - 2019	316,900	283,927	600,827
2020 - 2024	314,707	205,862	520,569
2025 - 2029	386,212	111,715	497,927
2030 - 2034	231,798	20,053	251,851
SUB TOTAL	1,521,830	979,491	2,501,321
Unamortized bond (discount) premium, net	19,212	-	19,212
Self-insurance workers' compensation	6,137	-	6,137
General liability	2,571	-	2,571
Accrued vacation, sick leave and compensatory time	6,725	-	6,725
Other post employment benefits	5,443	-	5,443
Environmental remediation and others	22,227	-	22,227
Deferred loss on refunding	(19,192)	-	(19,192)
TOTAL	\$ 1,564,953	\$ 979,491	\$ 2,544,444

\* Commercial paper is excluded from the first three years as there is no set schedule for repayment.

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

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The Port prepaid \$12,105,000 of Series K bonds in March 2009, of which \$2,800,000 represented a return of Series K proceeds and \$9,305,000 represented Series K bonds with maturity dates of November 1 of 2009, 2010, and 2011. As of June 30, 2009, the trustee, U.S. Bank, has in its escrow account \$12,648,000 of market value U.S. Treasury State and Local Government Series Time Deposits to pay for the \$12,105,000 of principal and related interest for certain bonds with maturity dates from November 1, 2009 to November 1, 2030.

Net interest costs of \$2,529,000 were capitalized in fiscal 2009. These amounts represented capitalized interest expense of \$3,446,000, net of interest revenue of \$917,000 for fiscal 2009.

### **Current Year Long-Term Debt Financings**

**Redevelopment Agency of the City of Oakland**  
**Central District Redevelopment Project**  
**Subordinated Tax Allocation Bonds, Series 2009T (Federally Taxable)**

On May 6, 2009, the Agency issued \$38,755,000 of Central District Redevelopment Project Subordinated Tax Allocation Bonds, Series 2009T (Federally Taxable) (the "Series 2009T Bonds"). The Series 2009T Bonds were issued to finance certain redevelopment activities within or to the benefit of the Agency's Central District Redevelopment Project Area. The Series 2009T Bonds are federally taxable with a final maturity of September 1, 2020; the interest rates of these bonds range from 5.30% to 8.50%.

The Series 2009T Bonds are limited obligations of the Agency payable solely from and secured solely by tax revenues, consisting primarily of tax increment derived from property, in the Central District Redevelopment Project Area.

**Master Lease – Sun Microsystems, Inc.**

On February 26, 2009, the City of Oakland closed a lease transaction with Sun Microsystems, Inc. in the amount of \$1,472,891 for the purpose of financing certain hardware, equipment and software. The financing is done on a taxable basis for services and tax-exempt basis for equipment with a final maturity of July 1, 2010; the interest rates on this lease transaction are 5.940% and 3.366%, respectively.

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

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**Restructuring of Long-Term Debt**

**Redevelopment Agency of the City of Oakland  
Central District Redevelopment Project  
Subordinated Tax Allocation Bonds, Series 2005**

On March 23, 2009, the Agency utilized unused proceeds of the Central District Redevelopment Project Subordinated Tax Allocation Bonds, Series 2005 (the "Series 2005 Bonds") to purchase \$11,190,000 of the Series 2005 Bonds maturing on September 1, 2022 and \$1,200,000 of the Series 2005 Bonds maturing September 1, 2020 (the "Purchased Series 2005 Bonds"). The Agency tendered the Purchased Series 2005 Bonds for cancellation with the trustee, and the Purchased Series 2005 Bonds have been cancelled and are no longer outstanding. Upon the cancellation of the Purchase Series 2005 Bonds, \$31,970,000 of the Series 2005 Bonds remains outstanding as of June 30, 2009.

**City of Oakland  
Variable Rate Demand  
Certificate of Participation (Certain Capital Improvement Project)**

On June 1, 2009, the City of Oakland (the "City") called full redemption of the outstanding bond issue Variable Rate Demand Certificate of Participation (Certain Capital Improvement Project) totaling \$24,500,000 in outstanding principal amount. These bonds are completely retired.

**Prior Year's Debt Defeasance**

In prior years, the City has defeased various bond issues by creating separate irrevocable escrow funds. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the escrow funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt is considered defeased and therefore removed as a liability from the City's government-wide financial statements. As of June 30, 2009, the amount of defeased debt outstanding but removed from the City's government-wide financial statements amounted to \$56.3 million.

**Authorized and Unissued Debt**

The City has \$126.8 million (Measure DD) General Obligation Bonds authorized and unissued. The voters, in a City election on November 5, 2002, authorized these bonds. The bonds are to be issued by the City in general obligation bonds for the improvement of Lake Merritt, the Estuary, inland creeks, Studio One, and other specifically identified projects in the City.

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

**Conduit Debt**

The following long-term debt has been issued by the City on behalf of named agents of the City. The bonds do not constitute an indebtedness of the City. The bonds are payable solely from revenue sources defined in the individual bond documents, and from other monies held for the benefit of the bond holders pursuant to the bond indentures. In the opinion of City officials, these bonds are not payable from any revenues or assets of the City, and neither the full faith and credit nor the taxing authority of the City, State or any political subdivision thereof is obligated for the payment of the principal or interest on the bonds. Accordingly, no liability has been recorded. The conduit debt issued and outstanding at June 30, 2009, is (in thousands):

	<u>Authorized and Issued</u>	<u>Maturity</u>	<u>Outstanding at June 30, 2009</u>
City of Oakland Kaiser Permanente Insured Revenue Bonds 1999A	\$ 64,425	01/01/29	\$ 63,425
City of Oakland Kaiser Permanente Insured Revenue Bonds 1999B	15,720	01/01/29	15,720
City of Oakland Liquidity Facility Revenue Bonds (Association of Bay Area Governments), Series 1984	3,300	12/01/09	245
Oakland JPFA Revenue Bond 2001 Series A Fruitvale Transit Village (Fruitvale Development Corporation)	19,800	07/01/33	16,995
Oakland JPFA Revenue Bond 2001 Series B Fruitvale Transit Village (La Clinica De La Raza Fruitvale Health Project, Inc)	5,800	07/01/33	5,500
Redevelopment Agency of the City of Oakland, Multifamily Housing Revenue Bonds (Uptown Apartment Project), 2005 Series A	160,000	10/01/50	160,000
<b>TOTAL</b>			<u><u>\$ 261,885</u></u>

**(13) GENERAL FUND UNRESERVED FUND BALANCE**

The following designations reflect the City of Oakland's imposition of limitations on the use of the otherwise available expendable financial resources in the General Fund (in thousands).

**Designations:**

Pension obligations - PFRS	\$ 73,726
Carryforward for continuing projects	<u>6,016</u>
Total designations	79,742
Unreserved/undesignated fund balance	<u>40,664</u>
Total General Fund unreserved fund balance	<u><u>\$ 120,406</u></u>



**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

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**(14) SELF-INSURANCE**

Changes in the balances of claims liabilities for all self-insured claims for the years ended June 30, 2009 and 2008 are as follows (in thousands):

**Workers' Compensation**

	<u>2009</u>	<u>2008</u>
Unpaid claims, beginning of fiscal year	\$ 80,382	\$ 98,381
Current year claims and changes in estimates	22,044	7,785
Claims payments	<u>(24,453)</u>	<u>(25,784)</u>
Unpaid claims, end of fiscal year (Note 12)	<u>\$ 77,973</u>	<u>\$ 80,382</u>

**General Liability**

	<u>2009</u>	<u>2008</u>
Unpaid claims, beginning of fiscal year	\$ 50,242	\$ 43,598
Current year claims and changes in estimates	12,551	15,877
Claims payments	<u>(13,556)</u>	<u>(9,233)</u>
Unpaid claims, end of fiscal year (Note 12)	<u>\$ 49,237</u>	<u>\$ 50,242</u>

The above estimated undiscounted liability for claims and contingencies is based on the results of actuarial studies and includes amounts for claims incurred but not reported and allocated loss adjustment expenses. The estimated liability is calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors.

**Primary Government**

The City is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; employee's injuries; natural disasters; unemployment coverage; and providing health benefits to employees, retirees and their dependents. For the past three years, there have been no significant reductions in any of the City's insurance coverage and no settlement amounts have exceeded commercial insurance coverage.

The City is self-insured for its general liability, malpractice liability, public official's errors and omissions, products & completed operations, employment practices liability, and auto liability up to \$2,000,000 retention level and has excess reinsurance with the California State Association of Counties – Excess Insurance Authority as described below. The City is 100 percent self-insured for worker's compensation.

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

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**Property Damage**

Property damage risks are covered on an occurrence basis by commercial insurance purchased from independent third parties. All properties are insured at full replacement values after a \$25,000 deductible to be paid by the City.

**General Liability**

Numerous lawsuits are pending or threatened against the City. The City estimates that as of June 30, 2009, the amount of liability determined to be probable of occurrence is approximately \$49,236,516. Of this amount, claims and litigation approximating \$16,961,674 are estimated to be due within one year. The recorded liability is the City's best estimate based on available information and may be revised as further information is obtained and as pending cases are litigated. The City and the Agency are involved in various claims and litigation arising in the ordinary course of its activities. In the opinion of the Agency's in-house counsel, the City Attorney's Office for the City, none of these claims are expected to have a significant impact on the financial condition or changes in financial position of the City and the Agency.

The City has not accumulated or segregated assets or reserved fund balances for the payment of estimated claims and judgments.

**Workers' Compensation**

The City is self-insured for workers' compensation. Payment of claims is provided through annual appropriations, which are based on claim payment experience and supplemental appropriations. Of the \$77,973,093 in claims liabilities as of June 30, 2009, approximately \$17,773,997 is estimated to be due within one year.

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

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### **Insurance Coverage**

On July 15, 2002, the City entered into a contract with the California State Association of Counties - Excess Insurance Authority (CSAC EIA), a joint powers authority, whose purpose is to develop and fund programs of excess insurance for its member counties and cities. Self-insured retention levels and purchased insurance per occurrence are as follows:

<b>Type of Coverage</b>	<b>Self-Insurance Retention</b>	<b>Insurance Authority/Purchase Insurance</b>
General Liability	up to \$2,000,000	\$2,000,000 to \$25,000,000 per occurrence
Automobile Liability	up to \$2,000,000	\$2,000,000 to \$25,000,000 per occurrence
Public Officials Errors and Omissions	up to \$2,000,000	\$2,000,000 to \$25,000,000 per occurrence/annual aggregate
Products and Completed Operations	up to \$2,000,000	\$2,000,000 to \$25,000,000 per occurrence/annual aggregate
Employment Practices Liability	up to \$2,000,000	\$2,000,000 to \$25,000,000 per occurrence/annual aggregate

### **Discretely Presented Component Unit**

#### **Workers' Compensation**

The Port is exposed to risk of loss related to injuries of employees. The Port is self-insured and self-administered for workers' compensation up to a maximum of \$750,000 per accident. The Port carries commercial insurance for claims in excess of \$750,000 per accident up to a maximum limit per accident of \$1,000,000. There were no workers' compensation claims paid in fiscal years 2009, 2008, and 2007 above the \$1,000,000 per accident limit. For the past three years, there have been no significant reductions in any of the Port's insurance coverage and no settlement amounts have exceeded commercial insurance coverage. The excess policy provides full statutory limits as established by California law.

Claim expenses and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses are based on an actuarial valuation performed as of June 30, 2009 and include an estimate of claims that have been incurred but not reported. Estimated Reserves can be defined as "actuarial central estimates" which represent the expected range of reasonably possible outcomes. The probability level refers to the probability that actual future payments will not exceed the indicated reserve amount.

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

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The June 30, 2009 Worker's Compensation Loss Reserve amount of \$6,137,000 has been based upon an actuarial study. Total reserve is equal to case reserves plus incurred but not reported (IBNR) reserves. Case reserves are established by individual claims adjusters. The IBNR reserves are estimated by the Actuary and include reserves for late reported claims as well as developments on known claims. The reserve amount is net of excess insurance on an expected value, undiscounted basis. The loss reserve amount represents an estimated reserve amount required to satisfy the Port's retained liability without a contingency provision for unanticipated development. Changes in the reported liability resulted from the following (in thousands):

	<u>2009</u>	<u>2008</u>
Workers' compensation liability at beginning of fiscal year	\$ 6,000	\$ 6,000
Current year claims and changes in estimates	962	869
Claims payments	(825)	(869)
Workers' compensation liability at end of fiscal year	<u>\$ 6,137</u>	<u>\$ 6,000</u>

**General Liability**

The Port maintains general liability insurance in excess of specified deductibles. For the Airport, coverage is provided in excess of \$200,000 in the aggregate up to a maximum of \$200,000,000. For the harbor area and the Port's real estate holdings, coverage is provided in excess of \$1,000,000 per occurrence up to an aggregate amount of \$150,000,000 per occurrence. Additionally, the Port maintains a Public Officials Errors & Omissions and Employment Practices policy. The policy limits are \$25,000,000 with a \$500,000 per claim deductible. Defense costs are in addition to the policy limits, but are included in the deductible. The Port is uninsured for losses in excess of these amounts. Casualty losses are accrued when it is determined that a loss to the Port is probable and the amount is estimable.

As of June 30, 2009, the Port was a defendant in various lawsuits arising in the normal course of constructing public improvements or construction related claims for unspecified amounts. The ultimate disposition of these suits and claims is not known. The Port's insurance may cover a portion of any losses. For the past three years, there have been no significant reductions in any of the Port's insurance coverage and no settlement amounts have exceeded commercial insurance coverage. For additional information, contact the Port of Oakland, 530 Water Street, Oakland, California 94607. Changes in the reported liabilities, which is included as part of long-term obligations is as follows:

	<u>2009</u>	<u>2008</u>
General liability at beginning of fiscal year	\$ 3,925	\$ 4,747
Current year claims and changes in estimates	1,131	4,287
Vendor payments	(2,485)	(5,109)
General liability at end of fiscal year	<u>\$ 2,571</u>	<u>\$ 3,925</u>

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

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**(15) JOINT VENTURE**

**Oakland-Alameda County Coliseum**

The City is a participant with the County of Alameda (the County) in a joint exercise of powers agreement known as the Oakland-Alameda County Coliseum Authority (the Authority), which was formed on July 1, 1995, to assist the City and County in the financing of public capital improvements in the Oakland-Alameda County Coliseum Complex (Coliseum Complex) pursuant to the Mark-Roos Local Bond Pooling Act of 1985. The Oakland-Alameda County Coliseum Financing Corporation (the Corporation) is reported as a blended component unit of the Authority. The eight-member Board of Commissioners of the Authority consists of two council members from the City, two members of the Board of Supervisors from the County, two appointees of the City Council, and two appointees of the Board of Supervisors. The Board of Directors of the Corporation consists of the City Administrator and the County Administrator.

In August 1995, the Authority issued \$9,200,000 in Fixed Rate Refunding Lease Revenue Bonds and \$188,500,000 in Variable Rate Lease Revenue Bonds (collectively known as the Stadium Bonds) to satisfy certain obligations of the Authority, the City, the County, the Corporation and Oakland-Alameda County Coliseum Inc. (Coliseum Inc.), which manages the operations of the Coliseum Complex, to finance the costs of remodeling the stadium portion of the Coliseum complex as well as relocating the Raiders football franchise to the City.

On May 25, 2000, the Authority issued \$201,300,000 in series 2000 C and D Refunding Bonds to retire \$181,900,000 of the 1995 Variable Rate Lease Revenue Stadium Bonds (\$188,500,000 less \$6,600,000 principal payment). In February 2004, the 1995 Fixed Rate Refunding Lease Revenue Bond was fully repaid from the escrow established in 1995 at the time the Coliseum Authority issued the Stadium Bonds.

The Stadium Bonds are limited obligations of the Authority payable solely from revenues of the Authority, consisting primarily of base rental payments to be received by the Authority from the City and the County. The source of the Coliseum Authority's revenues relating to football games consists primarily of a portion of club dues, concession and parking payments. In the event that such football revenues and other revenues received in connection with the Stadium are insufficient to make base rental payments, the City and the County are obligated to make up the shortfall in the base rental payments from their respective General Funds. The City and the County each have covenanted to appropriate \$11 million annually to cover such shortfalls in revenue; however, the City and the County are jointly and severally liable to cover such shortfall, which means that the City could have to pay up to \$22 million annually in the event of default by the County.

On August 2, 1996, the Authority issued \$70,000,000 Series A-1 and \$70,000,000 Series A-2 Variable Rate Lease Revenue Bonds (Arena Bonds) to finance the costs of remodeling the Coliseum Arena (Arena) and to satisfy certain obligations of the Authority, the City, the County and Coliseum Inc. in connection with the retention of the Golden State Warriors

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

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(the Warriors) to play professional basketball at the Arena for at least 20 basketball seasons, beginning with the 1997-98 season. These obligations are evidenced in a series of agreements (the Warriors Agreements) between the Warriors, the City, the County, Coliseum Inc. and the Authority.

Under the Warriors Agreements, the Arena Bonds were limited obligations of the Authority, payable solely from base rental revenues of the Authority received by the Authority on behalf of the City and the County. These revenues consist of base rental payments from the City and County and certain payments from the Warriors of up to \$7,428,000 annually from premium seating revenues, and other payments from Arena operations. If the revenues received from the Warriors and from Arena operations are not sufficient to cover the debt service requirements in any fiscal year, the City and County are obligated to make up the shortfall in the base rental payment from their respective General Funds. The City and the County each have covenanted to appropriate up to \$9,500,000 annually to cover such revenue shortfalls; however, the City and the County are jointly and severally liable to cover such shortfalls, which means that the City could have to pay up to \$19,000,000 annually in the event of default by the County.

The Coliseum Authority entered into an agreement with the Oakland Coliseum Joint Venture to manage the entire Coliseum complex beginning July 1, 1998. On January 1, 2001, the Coliseum Authority terminated its agreement with Oakland Coliseum Joint Venture and reinstated its Operating Agreement with Oakland-Alameda County Coliseum, Inc. Oakland-Alameda County Coliseum, Inc. subcontracted all of the operations of the Coliseum Complex to the Oakland Coliseum Joint Venture. The Operating Agreement between the Coliseum Authority and Coliseum Inc. expired, by its terms, on July 31, 2006. The Authority entered into a Termination Agreement whereby, in return for certain consideration, the Authority agreed to perform the duties of Coliseum, Inc. on and after August 1, 2006.

Debt service requirements for the Coliseum Authority debt are as follows (in thousands):

<b>For the Period Ending June 30,</b>	<b>Stadium Debt</b>		<b>Arena Debt</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2010	\$ 6,700	5,563	3,600	6,944
2011	7,100	5,212	3,950	6,720
2012	7,500	4,951	4,050	6,474
2013	7,900	4,669	4,400	6,221
2014	8,300	4,399	4,750	5,948
2015-2019	47,400	17,340	29,150	24,864
2020-2024	60,000	8,151	40,850	14,459
2025-2026	13,800	321	18,605	1,814
<b>Total</b>	<b>\$ 158,700</b>	<b>\$ 50,606</b>	<b>\$ 109,355</b>	<b>\$ 73,444</b>

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

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Complete financial statements for the Authority can be obtained from the County Auditor-Controller's office at 1221 Oak Street, Oakland, CA 94612.

Under the joint exercise of power agreement, which formed the Authority, the City is responsible for funding up to 50% of the Authority's operating costs and debt service requirements, to the extent such funding is necessary. During the year ended June 30, 2009, the City made contributions of \$10,925,000 to fund its share of operating deficits and debt service payments of the Authority.

The Coliseum Authority has anticipated a deficit for operating costs and repayment of its Stadium bonds, such that the City and County may have to contribute to base rental payments. Of the \$20,500,000 appropriated in the General Fund as part of the above agreements, it is estimated that the City may have to contribute \$10,063,000 for the 2009-10 fiscal year. There are many uncertainties in the estimation of revenues for the Authority beyond one year into the future; therefore, the City has established a liability to fund the Authority deficit in the statement of net assets in an amount equal to its contingent share (50%) of the outstanding Stadium bonds in the amount of \$79,350,000. The City has not established a contingent liability for the Arena Bonds because management is of the opinion that revenues from the Arena, including payments from the Warriors and revenues from Arena operations, will be sufficient to cover the debt payments.

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

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The City is not required to make any payments due to its funded status. Multiyear trend actuarial information about whether the actuarial value of Plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits over time is presented in the Required Supplementary Information immediately following the notes to the financial statements.

A summary of the actuarial methods and assumptions used to calculate the funded status of the plan for the current year is as follows:

Valuation Date	July 1, 2007
Actuarial Cost Method	Entry Age Normal Cost Method
Asset Valuation Method	Market Value
Investment Rate of Return	8.0%
Inflation Rate	3.25%
Cost-of-living Adjustments	3.0%
Amortization Method	NA*
Amortization Period	NA*

\*Not Applicable because OMERS is in a surplus position.

### **California Public Employees Retirement Systems (PERS)**

#### **Plan Description**

The City of Oakland contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and City ordinance. Copies of PERS' annual financial report may be obtained from their Executive Office - 400 P Street, Sacramento, CA 95814. A separate report for the City's plan is not available.

#### **Funding Policy**

Participants are required to contribute 8% (9% for safety employees) of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. The City is required to contribute at an actuarially determined rate; the current rate is 19.553% for non-safety employees and 27.513% for police and fire employees, of annual covered payroll. The contribution requirements of the plan members and the City are established and may be amended by PERS.



**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

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**Annual Pension Cost**

For 2008-09, the City's annual pension cost of \$98,196,641 was equal to the City's required and actual contribution. The required contribution was determined as part of the June 30, 2006, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service (3.25% to 14.45%), and (c) payroll growth of 3.25%. Both (a) and (b) included an inflation component of 3.00%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a four-year period (smoothed market value). PERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll over a closed 20 year period.

**Three-Year Trend Information for PERS**  
**(in millions)**

<b>Fiscal Year Ended June 30,</b>	<b>Annual Pension Cost (APC)</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Obligation</b>
2007	\$ 89.3	100%	\$ -
2008	97.9	100	-
2009	98.2	100	-

**Funded Status and Funding Progress for Pension Plans**

**Safety Plan**

As of June 30, 2008, the most recent actuarial valuation date, the Public Safety plan was 76.5% funded. The actuarial accrued liability for benefits was \$1,084,370,034, and the actuarial value assets was \$829,712,579, resulting in an unfunded actuarial accrued liability (UAAL) of \$254,657,455. The annual covered payroll was \$138,606,908, and the ratio of the UAAL to the annual covered payroll was 183.7%.

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

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The following table shows the components of the Port's annual OPEB cost for the year, the amount actually contributed, and changes in the Port's net OPEB obligation:

Annual required contribution	\$ 10,019
Interest on prior year net OPEB obligation	401
Adjustment to annual required contribution	<u>(401)</u>
Annual OPEB cost	10,019
Contribution made	<u>(12,330)</u>
Decrease in net OPEB obligation	(2,311)
Net OPEB obligation - beginning of year	<u>7,754</u>
Net OPEB obligation - end of year	<u>\$ 5,443</u>

The Port's annual OPEB cost and net OPEB obligation are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
06/30/08	\$ 11,683	34%	\$ 7,754
06/30/09	\$ 10,019	123%	\$ 5,443

**Funding Status and Funding Progress**

The unfunded actuarial accrued liability is being amortized as level percentage of expected payroll over 30 years. The table below indicated the funded status of the Plan as of January 1, 2009, the most recent actuarial valuation date

Actuarial accrued liability (AAL)	\$ 100,412
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 100,412</u>
 Funded ratio (actuarial value of plan assets/AAL)	 0%
Annual covered payroll (active plan members)	\$ 48,400
UAAL as a percentage of annual covered payroll	207%

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

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**Actuarial Methods and Assumptions**

The actuarial cost method used for determining the benefit obligations of the Port is the Entry Age Normal Cost Method. Under the principles of this method, the actuarial present value of the projected benefits of each individual included in the valuation is allocated as a level percentage of expected salary for each year of employment between entry age (defined as age at hire) and assumed exit.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan in effect and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial assumptions used included a discount rate of 7.75%, and an annual health cost trend rate of 5% to 6.5% in health premiums. Annual salary increases were assumed at 3.25%. The demographic assumptions regarding turnover and retirement are based on statistics from reports for California PERS under a "2.7% @ 55" benefit schedule.

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

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**Uptown Project Environmental Remediation**

The Uptown Project area demolition, management and removal of structures and debris will include the handling of building materials that contain asbestos and lead-based paints. The Developer is responsible for managing the remediation contractor to assure the proper management and disposal of the hazardous materials in conformance with all the laws applicable to the Environmental Hazard Abatement Activities. As of June 30, 2009, the total liability outstanding in connection with the Agency's environmental remediation activities was \$7,000 for ground water monitoring.

**Fox Court Environmental Remediation**

The Fox Court demolition, management and removal of structures and debris will include the handling of building materials that contain asbestos and lead-based paints. The Developer is responsible for managing the remediation contractor to assure the proper management and disposal of the hazardous materials in conformance with all the laws applicable to the Environmental Hazard Abatement Activities. As of June 30, 2009, the property was completely cleaned up and sold to an independent developer.

**Oakland Army Base Environmental Remediation**

Land held by the Oakland Army Base project area may be subject to environmental remediation as required by the Comprehensive Environmental Response, Compensation and Liability Act. If and when such environmental remediation is required, the Agency and the Port are responsible for the first \$13.0 million of environmental remediation costs; including environmental remediation insurance. The Agency has received a federal grant of \$13 million to pay for the above-mentioned environmental remediation costs including a \$3.5 million insurance premium. Of the \$13.0 million grant, \$12.4 million has been spent and reimbursed or invoiced to the grantor as of June 30, 2009. The remaining \$0.6 million of grant expenditures will be shared between the Agency and the Port.

The next \$11.0 million of environmental remediation costs are to be shared equally by the Agency and the Port. As a result, the Agency reports its share of \$5.5 million remediation obligation on the Oakland Army Base project. The next \$9.0 million will be paid from insurance proceeds from the environmental remediation policy. If subsequent environmental remediation is required after the initially-required remediation is complete, then the environmental site liability policy will cover up to \$30 million in additional environmental remediation-related costs. The Agency and the Port have agreed to share equally in any environmental remediation-related costs above \$21 million that are not covered by insurance.

The Agency management believes that none of the estimated environmental remediation costs will cause the recorded amounts of any properties held for resale to exceed their estimated net realizable values.

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

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**Discretely Presented Component Unit - Port of Oakland**

The Port is required to comply with a number of federal, state and local laws and regulations designed to protect human health, safety and the environment. In conforming to these laws and the implementing regulations, the Port has instituted a number of compliance programs and procedures.

It is the Port's intent that its environmental compliance programs be compliant with regulatory and legal requirements while effectively managing financial resources.

The Port's financial statements include liabilities, established and adjusted periodically, based on new information, in accordance with applicable generally accepted accounting principles in the United States of America, for the estimated costs of compliance with environmental laws and regulations and remediation of known contamination.

The Port anticipates spending approximately \$2,425,000 annually for environmental compliance and remediation obligations. Environmental monitoring costs relating to legal mandates such as regulatory agency orders, court orders or other affirmative legal obligations are included in the anticipated spending.

By adopting the provisions of GASB 49, the Port recorded remediation liabilities related to its pollution remediation activities. As a result, the Port recorded a reduction of net assets as of June 30, 2008 of \$6,680,000.

A summary of the environmental liability accounts, included within the financial statements at June 30, 2009, is as follows (in thousands):

<b>Obligating Event</b>	<b>Liability</b>	<b>Estimated Recovery</b>
Pollution poses an imminent danger to the public or environment	\$ -	\$ -
Violated a pollution prevention-related permit or license	-	-
Identified as responsible to clean up pollution	15,109	1,319
Named in a lawsuit to compel to clean up	16	-
Begins or legally obligates to clean up or post-clean up activities	2,410	31
<b>Total by Obligating Event</b>	<b>\$ 17,535</b>	<b>\$ 1,350</b>

The environmental liability accounts in the summary tables are listed by the initial obligating event. Due to new information, the obligating event may change from the initial obligating event. Examples of obligating events includes without limitations: 1) the Port is named, or evidence indicates that it will be named, by a regulator such as the Department of Toxic Substances Control or the Regional Water Quality Control Board, as a responsible party or potentially responsible party for remediation; and 2) the Port has commenced, or has legally obligated itself to commence, clean-up activities or monitoring or operation and maintenance of the remediation effort (e.g., by undertaking a soil and groundwater pre-development investigation).

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

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**(19) TRANSACTIONS WITH THE FOX OAKLAND THEATER, INC. ("FOT") DEVELOPMENT**

FOT is a 501(C)(3) organization set up to renovate the Fox Theater for the benefit of the public. The Agency transferred the Fox Theater property to FOT in August 2006 through a long-term lease and a Disposition and Development Agreement ("DDA") which included a \$25,500,000 loan. The Fox Theater property was held by the Agency as property held for resale. During 2008, the property was transferred to a capital asset due to the long-term lease which was valued at \$6,500,000 in the lease and DDA. All FOT board members are City employees and FOT has no staff. FOT set up a for-profit entity, Fox Theater Manager, Inc ("FT Manager"), and two LLCs managed by FT Manager, Fox Theater Landlord LLC and Fox Theater Master Tenant LLC. These new entities were used to syndicate Historic and New Markets Tax Credits. The Fox Theater property was transferred to the LLCs in December 2006, but the loan remains with FOT and is secured by a pledge and assignment of borrowers ninety nine and nine-tenths percent (99.9%) interests in the Community Development Entities (CDEs) loans entered into between FOT and Fox Oakland Investment Fund (FOIF).

The outstanding principal balance of the FOT loan shall accrue interest at the rate of 2.5 percent, commencing on the date of disbursement and compounded annually, which will only be payable to the extent of borrower's net cash flow from operations.

Loan terminates at the end of ten years unless the borrower defaults on the agreement in which case the lender declares an acceleration of the maturity.

In FY 2008-09 the Agency loaned an additional \$7,450,000 to FOT and approved an additional loan of \$1,400,000 to Fox Theater Master Tenant LLC to complete the project. The \$7,450,000 FOT loan has a 30 year term and is non-interest bearing. The \$1,400,000 loan will be executed and funded in the FY 2009-10. The Agency also funded a \$1,150,931 loan to Friends of the Oakland Fox and a \$2,276,412 loan to Oakland School for the Arts, both of which are unrelated 501(c)(3) organizations that participated in the development and/or are tenants in the facility. The Agency also gave a \$2,000,000 grant to GASS Entertainment LLC for tenant improvements of the Theater.

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

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**(20) DEFICIT FUND BALANCES/NET ASSETS AND EXPENDITURES OVER BUDGET**

As of June 30, 2009, the following funds reported deficits in fund balance/net assets (in thousands):

Special Revenue:	
ORA Projects	\$ (2,766)
State Gas Tax	(962)
Landscape & Lighting Assessment District	(5,981)

The ORA projects fund deficit is expected to be cured by reimbursements from the Agency. The State Gas Tax and the Landscape & Lighting Assessment District will be cleared by future revenues.

Internal Service:	
Facilities	\$ (31,280)
Equipment	(1,892)
Central Stores	(4,773)
Purchasing	(1,386)
Radio	(382)

The City's facilities, equipment, central stores and radio funds deficits are expected to be funded through increased user charges for future years. During the 2009-11 Budget, the City revised the repayment plan for the internal service funds to eliminate the funds net assets deficit by 2019. In addition, the City adopted a financial policy that requires half of one-time revenues to be used to eliminate negative internal service fund balances and half be used to pay off other negative funds balances.

As of June 30, 2009, the following funds reported expenditures in excess of budgets (in thousands):

Special Revenue:	
Landscape & Lighting Assessment District	\$ (1,740)

The excess of expenditures over budget in Landscape & Lighting Assessment District is primarily attributed to personnel expenditures during the emergency storm response in the Public Works Agency, Tree Division. The deficit will be reduced by further cuts to services and positions in future years unless an alternative revenue source is found.

**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

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**(21) SUBSEQUENT EVENTS**

**Tax and Revenue Anticipation Notes**

On July 13, 2009, the City issued the 2009-2010 Tax and Revenue Anticipation Notes (the "Notes") in the principal amount of \$162,375,000, consisting of two series. The Series A Notes, in the principal amount of \$115,410,000 are tax-exempt with an interest rate of 2.50% and the Series B Notes, in the principal amount of \$46,965,000 are taxable with an interest rate of 2.25%. The Notes were issued to finance General Fund expenditures, including but not limited to, current expenses, capital expenditures and the discharge of other obligations of the City including the prepayment of the City's annual contribution to the California Public Employees Retirement System for fiscal year 2009-2010. Both series of notes will mature on July 16, 2010.

**General Obligation Bonds (Series 2009B, Measure DD)**

The City of Oakland Trust for Clean Water and Safe Parks (Measure DD) program was implemented by the City in November 2002 upon receiving voter approval authorizing the City to issue \$198,250,000 in general obligation bonds to preserve and acquire open space, renovate parks, provide educational and recreation facilities for children, clean up Lake Merritt and restore Oakland's creeks, waterfront and estuary. In August 2003, the City issued the first series of Measure DD general obligation bonds in the amount of \$71,450,000. On July 22, 2009, the City issued the second series in the amount \$64,545,000 of General Obligation Bonds, Series 2009B, Measure DD (the "2009B Bonds"). The 2009B Bonds have interest rates of 3.00% to 6.25% and will mature in 2039. The proceeds of the 2009B Bonds will fund existing projects as well as execute new projects.

**Supplemental Educational Revenue Augmentation Funds (SERAF)**

On July 24, 2009, the State Legislature passed Assembly Bill (AB) 26 4x, which requires redevelopment agencies statewide to deposit a total of \$2.05 billion of property tax increment in county "Supplemental" Educational Revenue Augmentation Funds (SERAF) to be distributed to meet the State's Proposition 98 obligations to schools. The SERAF revenue shift of \$2.05 billion will be made over two years, \$1.7 billion in fiscal year 2009-2010 and \$350 million in fiscal year 2010-2011. The SERAF would then be paid to school districts and the county offices of education which have students residing in redevelopment project areas, or residing in affordable housing projects financially assisted by a redevelopment agency, thereby relieving the State of payments to those schools. The Agency's share of this revenue shift is approximately \$41,074,866 in fiscal year 2009-2010 and \$8,497,000 in fiscal year 2010-2011. Payments are to be made by May 10 of each respective fiscal year. In response to AB 26 4x, the Agency issued a resolution no. 2009-



**CITY OF OAKLAND**  
**Notes to Basic Financial Statements, (continued)**  
**Year Ended June 30, 2009**

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0090 amending the fiscal year 2010-11 biennial budget to revise FY 2009-10 revenue projections and to provide payments to the SERAF and amending resolution no. 01-85 to provide for a portion of the payments to the SERAF to come from the Agency's voluntary five percent contribution to the low and moderate income housing fund.

The California Redevelopment Association (CRA) is the lead petitioner on a lawsuit to invalidate AB 26 4x, similar to last year's successful lawsuit challenging the constitutionality of AB 1389. CRA filed a lawsuit on October 20, 2009. The lawsuit will assert that the transfer of property tax increment to the SERAF is not permitted under Article XVI, Section 16 of the California Constitution. The complaint will also assert impairment of contract and gift of public funds arguments. While the State made adjustments in AB 26 4x to address the constitutional issues raised by the Superior Court over last year's lawsuit challenging AB 1389, the Agency, along with the CRA and other California redevelopment agencies, believe that the SERAF remains unconstitutional.

**Long-term Concession and Lease Agreement**

In November 2009, the Port will sign a long-term concession and lease agreement with Ports America Outer Harbor Terminal, LLC. The agreement covers the Port's Outer Harbor berths 20-24 for 50 years beginning in January 2010. The estimated value of the 50-year agreement is about \$700,000,000. The agreement calls for a \$60,000,000 upfront fee due on December 31, 2009 and annual rent of at least \$19,500,000. The Port will use most of the cash to retire certain revenue bonds that financed prior improvements at the terminal.



**CITY OF OAKLAND**  
**Required Supplementary Information**  
**June 30 2009**

**PERS ACTUARIAL VALUATION**

**SCHEDULE OF FUNDING PROGRESS**

The schedule of funding progress below shows the recent history of the actuarial value of assets, actuarial accrued liability, their relationship, and the relationship of the unfunded actuarial accrued liability to payroll. The required contribution was determined as part of the actuarial valuation using the entry age normal actuarial cost method.

**Public Safety Retirement Plan (Police and Fire)**

Valuation Date	Actuarial Accrued Liability (AAL) (a)	Actuarial Value of Assets (b)	Unfunded (Overfunded) AAL (UAAL) (a-b)	Funded Ratio (b)/(a)	Covered Payroll (c)	UAAL as a percent of Covered Payroll ((a-b) / c)
7/1/2006	\$ 907,421,303	\$ 678,599,629	\$ 228,821,674	74.8%	\$ 124,174,590	184.3%
7/1/2007	989,095,209	757,340,889	231,754,320	76.6%	127,434,797	181.9%
7/1/2008	1,084,370,034	829,712,579	254,657,455	76.5%	138,606,908	183.7%

**Miscellaneous Retirement Plan**

Valuation Date	Actuarial Accrued Liability (AAL) (a)	Actuarial Value of Assets (b)	Unfunded (Overfunded) AAL (UAAL) (a-b)	Funded Ratio (b)/(a)	Covered Payroll (c)	UAAL as a percent of Covered Payroll ((a-b) / c)
7/1/2006	\$ 1,507,980,747	\$ 1,250,681,091	\$ 257,299,656	82.9%	\$ 217,024,554	118.6%
7/1/2007	1,617,214,275	1,353,435,664	263,778,611	83.7%	225,726,055	116.9%
7/1/2008	1,727,976,732	1,445,373,281	282,603,451	83.6%	237,455,347	119.0%

**City Other Post Employment Benefits (OPEB)**

Valuation Date	Actuarial Accrued Liability (AAL) (a)	Actuarial Value of Assets (b)	Unfunded (Overfunded) AAL (UAAL) (a-b)	Funded Ratio (b)/(a)	Covered Payroll (c)	UAAL as a percent of Covered Payroll ((a-b) / c)
7/1/2008	\$ 591,575,250	-	\$ 591,575,250	0.0%	\$ 304,875,561	194.0%

**Port of Oakland Post Employment Benefits (OPEB)**

Valuation Date	Actuarial Accrued Liability (AAL) (a)	Actuarial Value of Assets (b)	Unfunded (Overfunded) AAL (UAAL) (a-b)	Funded Ratio (b)/(a)	Covered Payroll (c)	UAAL as a percent of Covered Payroll ((a-b) / c)
1/1/2007	\$ 143,594,000	-	\$ 143,594,000	0.0%	\$ 49,400,000	291%
1/1/2009	\$ 100,412,000	-	\$ 100,412,000	0.0%	\$ 48,400,000	207%

**CITY OF OAKLAND**  
**Required Supplementary Information**  
**June 30 2009**

**PERS ACTUARIAL VALUATION**  
**SCHEDULE OF FUNDING PROGRESS**

**Oakland Municipal Employees' Retirement System - Pension**

Valuation Date	Actuarial Accrued Liability (AAL) (a)	Actuarial Value of Assets (b)	Unfunded (Overfunded) AAL (UAAL) (a-b)	Funded Ratio (b)/(a)	Covered Payroll (c)	UAAL as a percent of Covered Payroll ((a-b) / c)
7/1/2003	\$ 6,714,000	\$ 11,668,000	\$ (4,954,000)	173.8%	-	N/A
7/1/2005	5,277,000	10,595,000	(5,318,000)	200.8%	-	N/A
7/1/2007 *	7,516,000	9,371,000	(1,855,000)	124.7%	-	N/A

**Oakland Police and Fire Retirement System - Pension**

Actuarial Accrued Liability (AAL) (a)	Actuarial Value of Assets (b)	Unfunded (Overfunded) AAL (UAAL) (a-b)	Funded Ratio (b)/(a)	Covered Payroll (c)	UAAL as a percent of Covered Payroll ((a-b) / c)
\$ 875,500,000	\$ 674,700,000	\$ 200,800,000	77.1%	\$ 2,600,000	7723%
890,600,000	615,100,000	275,500,000	69.1%	400,000	68875%
890,200,000	621,600,000	268,600,000	69.8%	300,000	89533%
883,500,000	614,900,000	268,600,000	69.6%	300,000	89533%
888,100,000	566,000,000	322,100,000	63.7%	400,000	80525%

\* The plans used the aggregate actuarial cost method to determine annual required contributions in prior fiscal years. Beginning with the July 1, 2007 actuarial valuation, the entry age normal cost method was used as a surrogate method to meet the disclosure requirements of GASB Statement No. 50.

**CITY OF OAKLAND**  
**Budgetary Comparison Schedule**  
**General Fund**  
**For the Year Ended June 30, 2009**  
*(In Thousands)*

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual Budgetary Basis</b>	<b>Variance Positive (Negative)</b>
<b>REVENUES</b>				
Taxes:				
Property	\$ 190,893	\$ 189,085	\$ 198,848	\$ 9,763
State:				
Sales and use	51,804	46,590	46,122	(468)
Motor vehicle in-lieu	1,951	1,091	1,282	191
Local:				
Business license	53,764	53,000	54,291	1,291
Utility consumption	54,004	54,000	52,701	(1,299)
Real estate transfer	44,863	32,590	34,267	1,677
Transient occupancy	13,419	10,320	10,599	279
Parking	9,748	7,124	7,655	531
Franchise	14,155	13,983	14,221	238
Licenses and permits	1,478	1,318	1,282	(36)
Fines and penalties	26,241	24,044	25,838	1,794
Interest and investment income	2,000	2,000	4,828	2,828
Charges for services	63,493	62,794	57,447	(5,347)
Federal and state grants and subventions	1,500	4,458	4,505	47
Annuity income	12,840	12,840	5,348	(7,492)
Other	10,653	13,293	13,346	53
<b>TOTAL REVENUES</b>	<b>552,806</b>	<b>528,530</b>	<b>532,580</b>	<b>4,050</b>
<b>EXPENDITURES</b>				
Current:				
Elected and Appointed Officials-				
Mayor	3,093	2,538	2,910	(372)
Council	3,761	3,867	3,396	471
City Administrator	11,296	9,128	9,030	98
City Attorney	9,850	8,815	9,084	(269)
City Auditor	1,464	1,971	1,656	315
City Clerk	2,293	2,635	1,873	762
Agencies/Departments:				
Human Resource Management	6,228	4,920	5,945	(1,025)
Information Technology	10,790	10,604	11,029	(425)
Financial Services	26,345	27,856	26,618	1,238
Contracting and Purchasing	2,560	2,026	1,959	67
Police Services	198,026	207,208	210,292	(3,084)
Fire Services	110,189	109,121	106,469	2,652
Life Enrichment:				
Parks and Recreation	16,977	16,670	15,868	802
Library	12,398	10,580	10,595	(15)
Cultural Arts and Museum	6,066	5,841	6,121	(280)
Aging & Health and Human Services	6,749	7,169	5,723	1,446
Community and Economic Development	9,961	10,365	7,555	2,810
Public Works	32,153	31,323	31,300	23
Other	247	4,895	2,703	2,192
Capital outlay	-	684	415	269
Debt service:				
Principal repayment	2,315	1,675	1,433	242
Bond issuance costs	-	-	263	(263)
Interest charges	544	707	746	(39)
<b>TOTAL EXPENDITURES</b>	<b>473,305</b>	<b>480,598</b>	<b>472,983</b>	<b>7,615</b>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	<b>79,501</b>	<b>47,932</b>	<b>59,597</b>	<b>11,665</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Property sale proceeds	307	8,097	8,723	626
Transfers in	50,914	58,132	17,041	(41,091)
Transfers out	(115,282)	(118,697)	(96,579)	22,118
<b>TOTAL OTHER FINANCING USES, NET</b>	<b>(64,061)</b>	<b>(52,468)</b>	<b>(70,815)</b>	<b>(18,347)</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>15,440</b>	<b>(4,536)</b>	<b>(11,218)</b>	<b>(6,682)</b>
Fund balances - beginning	253,638	253,638	253,638	-
<b>FUND BALANCES - ENDING</b>	<b>\$269,078</b>	<b>\$ 249,102</b>	<b>\$ 242,420</b>	<b>\$ (6,682)</b>

The notes to the required supplementary information are an integral part of this schedule.

**CITY OF OAKLAND**  
**Notes to Required Supplementary Information**  
**June 30, 2009**

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**(1) BUDGETARY DATA**

In accordance with the provisions of the City Charter, the City prepares and adopts a budget on or before June 30 for each fiscal year. The City Charter prohibits expending funds for which there is no legal appropriation. Therefore, the City is required to adopt budgets for all City funds.

Prior to July 1, the original adopted budget is finalized through the passage of a resolution by the City Council. The level of legal budgetary control by the City Council is established at the fund level. For management purposes, the budget is controlled at the departmental level of expenditure within funds.

In June 2007, the City Council approved the City's two-year budget for fiscal years 2008 and 2009. Although appropriations are adopted for a 24-month period, they are divided into two one-year spending plans. Agencies/departments ending the first year with budgetary non-project surplus, according to Council policy, will be allowed to carry-forward 1/3 for their operating budget, 1/3 for their capital spending, and 1/3 for reverting to the General Fund balance.

The final budgetary data presented in the required supplementary information reflects approved changes to the original 2008-09 budget. Certain projects are appropriated on a multi-year rather than annual basis. If such projects or programs are not completed at the end of the fiscal year, unexpended appropriations are carried forward to the following year with the approval of the City Administrator.

Transfers of appropriations between funds must be approved by the City Council. Supplemental appropriations financed by unanticipated revenues must be approved by the City Council.

Transfers of appropriations between projects within the same fund must be approved by the City Administrator. Final budget amounts reported in the required supplementary information reflect both the appropriation changes approved by the City Council and the transfers approved by the City Administrator.

**CITY OF OAKLAND**  
**Notes to Required Supplementary Information**  
**June 30, 2009**

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**Budgetary Basis of Accounting**

The City adopts budgets each fiscal year on a basis of accounting which is substantially the same as GAAP except for certain investment earnings.

Certain funds of the City contain capital projects, grant projects, loan programs or other programs that are budgeted on a multi-year basis. The amounts of the projects and programs budgeted on a multi-year basis are significant compared to the items budgeted on an annual basis; therefore, a comparison of budget to actual for the fund would not be meaningful. As a result, such funds that are excluded from budgetary reporting are:

**Major Funds**

Federal and State Grants  
Oakland Redevelopment Agency  
Municipal Capital Improvement

**Nonmajor Funds**

Special Revenue Funds  
ORA Projects  
Parks, Recreation and Cultural

While the City adopts budgets for all funds, the budget to actual comparisons for proprietary and fiduciary funds are not presented because some projects and programs are adopted on a multi-year basis.

**CITY OF OAKLAND**  
**Notes to Required Supplementary Information**  
**June 30, 2009**

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**(2) RECONCILIATION OF OPERATIONS ON MODIFIED ACCRUAL BASIS TO BUDGETARY BASIS**

The governmental fund financial statements have been prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). The "Budgetary Comparison Schedule - General Fund" has been prepared on a budgetary basis, which is different from GAAP.

The budgetary process is based upon accounting for certain transactions on a basis other than GAAP. The results of operations are presented in the budget to actual comparison schedule in accordance with the budgetary process (Budgetary Basis) to provide a meaningful comparison with the budget.

The main difference between Budgetary Basis "actual" and GAAP basis is a timing difference:

*In October 2001, the City entered into a debt service deposit agreement with a third party whereby the City received approximately \$9.6 million in exchange for forgoing its right to receive investment earnings on the amounts deposited with the trustee in advance of the date that the related debt was due to the bondholders. The compensation to the City was recorded as revenue in fiscal year 2002 when received on a budgetary basis. On a GAAP basis, the revenue was deferred and is being recognized over the 21-year life of the agreement. Amortization for the year ended June 30, 2009, was \$482,831.*

The following schedule is a reconciliation of the GAAP and budgetary results of operations (in thousands):

	<b>General Fund</b>
Net change in fund balance - GAAP basis	\$ (10,735)
Amortization of debt service deposit agreement	(483)
Net change in fund balance - Budgetary basis	<u>\$ (11,218)</u>



**CITY OF OAKLAND**  
**Notes to Required Supplementary Information**  
**June 30, 2009**

---

The General Fund's fund balance on a GAAP Basis is reconciled to a Budgetary Basis as of June 30, 2009, which is as follows (in thousands):

	<b>General Fund</b>
Fund balance as of June 30, 2009 - GAAP basis	\$ 236,949
Unamortized debt service deposit agreement	5,471
Fund balance as of June 30, 2009 - Budgetary basis	<u>\$ 242,420</u>





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SACRAMENTO

WALNUT CREEK

LOS ANGELES

NEWPORT BEACH

SAN DIEGO

The Honorable Mayor and Members  
of the City Council  
City of Oakland, California

**Independent Auditor's Report On Internal Control Over Financial Reporting and  
On Compliance and Other Matters Based On An Audit of Financial Statements Performed  
In Accordance with *Government Auditing Standards***

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Oakland, California (City), as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 25, 2009. We did not audit the Oakland Redevelopment Agency (ORA) whose financial activities are included in the City's basic financial statements as a major fund, which represent 30%, 41% and 17%, of the assets, net assets, and revenues of the governmental activities, respectively, as of and for the year ended June 30, 2009. The ORA financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the ORA, is based on the report of the other auditors. Our report contained an explanatory paragraph describing the City's adoption of the provisions of Governmental Accounting Standards Board (GASB) Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, effective July 1, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Item No. 2009-1 to be a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Finance and Management Committee, management, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Macias Gini & C Counsel LLP*  
Certified Public Accountants

Oakland, California  
November 25, 2009



**MACIAS GINI & O'CONNELL LLP**  
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SACRAMENTO

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NEWPORT BEACH

SAN DIEGO

The Honorable Mayor and Members  
of the City Council of Oakland  
City of Oakland, California

**Independent Auditor's Report On Compliance With Requirements  
Applicable To Each Major Program and On Internal Control Over  
Compliance In Accordance With OMB Circular A-133**

Compliance

We have audited the compliance of the City of Oakland, California (City), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

The City's basic financial statements include the operations of the Port of Oakland (Port), which expended \$12,624,287 in federal awards, which are not included in the accompanying schedule of expenditures of federal awards for the year ended June 30, 2009. Our audit of compliance, described below, did not include the operations of the Port because we audited and reported on the Port's compliance in accordance with OMB Circular A-133 separately.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as Item No. 2009-2.

### Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

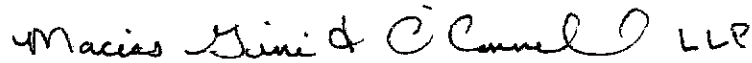
Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Item No. 2009-2 to be a significant deficiency.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We do not consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness.

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City Council, City management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

  
Certified Public Accountants

Oakland, California  
January 15, 2010

**CITY OF OAKLAND  
SCHEDULE OF EXPENDITURES OF  
FEDERAL AWARDS  
FOR FISCAL YEAR ENDED JUNE 30, 2009**

<b>FEDERAL GRANTOR/PROGRAM TITLE</b>	<b>CFDA Number</b>	<b>Grant Number</b>	<b>Expenditures</b>	<b>Amount Passed-through to SubRecipients</b>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>				
Passed through the State of California Department of Education: Child & Adult Care Food Program	10.558	01-1135-1J	\$ 648,253	\$ -
Passed through the State of California Summer Food Service Program for Children	10.559	E116-01	213,876	140,679
<b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>			<b>862,129</b>	<b>140,679</b>
<b>U.S. DEPARTMENT OF COMMERCE</b>				
Economic Adjustment Assistance Industrial District Strategy	11.307	07-39-02873 07-79-04941 07-79-06021	75,000 3,500 71,406	- - 2,900
<b>TOTAL U.S. DEPARTMENT OF COMMERCE</b>			<b>149,906</b>	<b>2,900</b>
<b>U.S. DEPARTMENT OF DEFENSE</b>				
Environmental Services Cooperative Agreement	12.Unknown	DASW01-02-2-0004	1,434,665	1,429,137
<b>TOTAL U.S. DEPARTMENT OF DEFENSE</b>			<b>1,434,665</b>	<b>1,429,137</b>
<b>U.S. DEPARTMENT OF HOUSING &amp; URBAN DEVELOPMENT</b>				
Community Development Block Grants/ Entitlement Grants	14.218	B-01-MC-06-0013	11,723,421	3,080,927
Emergency Shelter Grants Program	14.231	S02-MC-06-0013	448,651	413,570
Supportive Housing Program	14.235	CA-01B602020-CA5065 CA-01B602017-CA5080 CA-01B602018-CA5080 CA-01B502022-CA5089 CA-01B502024-CA5089 CA-01B602015-CA5063 CA-01B602026-CA5089 CA-01B602027-CA5089	1,692,125 620,121 172,152 116,724 22,250 168,809 4 152,963	1,648,054 589,035 167,194 114,429 22,135 164,788 - 144,614
			2,945,148	2,850,249
HOME Investment Partnerships Program	14.239	M01-MC060208	10,268,020	-
Housing Opportunities for Persons with AIDS	14.241	CA-H04-F001 CA-H05-F001 CA-H06-F001	297,979 212,239 627,646	297,979 174,844 627,646
			1,137,864	1,100,469
Community Development Block Grants/ Brownfields Economic Development Initiative	14.246	B93-MC-06-0013	500,295	163,482
Community Development Block Grants/ Section 108 Loan Guarantees	14.248	B94-MC-06-0013-A	2,246,011	-
<b>TOTAL U.S. DEPARTMENT OF HOUSING &amp; URBAN DEVELOPMENT</b>			<b>29,269,410</b>	<b>7,608,697</b>

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

**CITY OF OAKLAND  
SCHEDULE OF EXPENDITURES OF  
FEDERAL AWARDS  
FOR FISCAL YEAR ENDED JUNE 30, 2009**

<b>FEDERAL GRANTOR/PROGRAM TITLE</b>	<b>CFDA Number</b>	<b>Grant Number</b>	<b>Expenditures</b>	<b>Amount Passed-through to SubRecipients</b>
<b>U.S. DEPARTMENT OF JUSTICE</b>				
Services for Trafficking Victims	16.320	2005-VT-BX0009	67,609	2,620
National Institute of Justice Research, Evaluation, And Development Project Grants	16.560	2007-DN-BX-K019	106,483	-
		2008-DN-BX-K172	72,661	-
		CQ07-05-7503	14,923	-
		CQ08-06-7503	7,839	-
			201,906	-
Federal Surplus Property Transfer Program	16.578	CA0010900	221,001	99,108
Local Law Enforcement Block Grants Program	16.592	98-LB-VX-2565	1,642	-
		JAG-OPD-2006	8,076	8,076
			9,718	8,076
Community Capacity Development Office	16.595	98-WS-08-0048	25	-
		2006-WS-06-0063	20	-
		2007-WS-Q7-0057	198,582	40,000
			198,627	40,000
Bulletproof Vest Partnership Program	16.607	Agreement	25,650	-
Public Safety Partnership and Community Policing Grants	16.710			
Creating Culture		2002HSWX0005	33,165	33,081
Cops More98 Award		98CL WX0160	552	-
			33,717	33,081
Gang Resistance Education and Training	16.737	2008-JV-FX-0035	40,790	-
DNA Backlog Reduction	16.743	2007-DN-BX-K132	137,196	-
		2008-DB-BX-K045	177,355	-
			314,551	-
Support for Adam Walsh Act Implementation Grant Program	16.750	2008-DD-BX-0034	153,116	-
Edward Byrne Memorial Competitive Grant Program	16.751	2007-DJ-BX-1405	204,152	144,532
<b>TOTAL U.S. DEPARTMENT OF JUSTICE</b>			<b>1,470,837</b>	<b>327,417</b>

See Accompanying Notes to the Schedule of Expenditures of Federal Awards



**CITY OF OAKLAND  
SCHEDULE OF EXPENDITURES OF  
FEDERAL AWARDS  
FOR FISCAL YEAR ENDED JUNE 30, 2009**

<b>FEDERAL GRANTOR/PROGRAM TITLE</b>	<b>CFDA Number</b>	<b>Grant Number</b>	<b>Expenditures</b>	<b>Amount Passed-through to SubRecipients</b>
<b>U.S. DEPARTMENT OF LABOR</b>				
Passed through the Senior Service America, Inc. (SSAI)				
Senior Community Service Employment Program	17.235	SSAI Agreement	1,204,048	15,982
ARRA Passed through SSAI		ARRA-SCEP	6,526	-
			<u>1,210,574</u>	<u>15,982</u>
Passed through the State of California				
Employment Development Department:				
WIA Cluster:				
WIA Adult Program	17.258	R865475	237,164	237,164
		R970553	2,163,291	1,810,889
			<u>2,400,455</u>	<u>2,048,053</u>
WIA Youth Activities	17.259	R865475	208,553	208,553
		R970553	1,897,144	1,897,144
			<u>2,105,697</u>	<u>2,105,697</u>
ARRA Youth Activities	17.259	AA-17110-08-55-A-6	82,983	82,983
WIA Dislocated Workers	17.260	R865475	427,930	427,930
		R970553	1,388,277	1,388,277
			<u>1,816,207</u>	<u>1,816,207</u>
Total WIA Cluster			<u>6,405,342</u>	<u>6,052,940</u>
<b>TOTAL U.S. DEPARTMENT OF LABOR</b>			<u><b>7,615,916</b></u>	<u><b>6,068,922</b></u>
<b>U.S. DEPARTMENT OF TRANSPORTATION</b>				
Passed through the State of California				
Department of Transportation:				
Highway Planning and Construction:	20.205			
Skyline Slide Restoration		46Y1(001)	908,618	-
Lake Merritt Canal Bridge		STPL - 5012 (037)	218,109	-
Mandela Parkway TEA		STPL-5012 (065)	157,511	-
Bus Stop Mac Arthur		M3072- (81)	208	-
Sidewalk Repair STPL		STPL-5012 (062)	731,184	-
Street Resurfacing STP Cycle 2		STPL 5012 (075)	811,670	-
Tunnel Rd Haz Mitigation		STPL 5012 (077)	139,124	-
Street Resurfacing		STPL-5012 (084)	33,503	-
Bridges - Hegenberger Seismic		STPLZ-5012 (027)	60,764	-
Bridges - Park, Leimert Seismic		STPLZ-5012 (025)	21,098	-
Bridges - 4 Seismic Retrofit		STPLZ 5012 (028)	26,819	-
SRTS Cycle 1		STPL - 5012 (089)	43,944	-
			<u>3,152,552</u>	<u>-</u>
<b>TOTAL U.S. DEPARTMENT OF TRANSPORTATION</b>			<u><b>3,152,552</b></u>	<u><b>-</b></u>
<b>ENVIRONMENTAL PROTECTION AGENCY</b>				
Brownfields Assessment and Cleanup Cooperative				
Agreements	66.818	BL98968501-0	2,543	-
		BF 96901010	146,093	140,203
			<u>148,636</u>	<u>140,203</u>
<b>TOTAL ENVIRONMENTAL PROTECTION AGENCY</b>			<u><b>148,636</b></u>	<u><b>140,203</b></u>

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

**CITY OF OAKLAND  
SCHEDULE OF EXPENDITURES OF  
FEDERAL AWARDS  
FOR FISCAL YEAR ENDED JUNE 30, 2009**

<b>FEDERAL GRANTOR/PROGRAM TITLE</b>	<b>CFDA Number</b>	<b>Grant Number</b>	<b>Expenditures</b>	<b>Amount Passed-through to SubRecipients</b>
<b>U.S. DEPARTMENT OF EDUCATION</b>				
Passed through the State of California State Library: Even Start: State Educational Agencies	84.213	E-116-00-01-3	173,931	5,000
<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>			<b>173,931</b>	<b>5,000</b>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>				
Medical Reserve Corps Small Grant Program	93.008	MRCSGO+1001-02 MRC091176	10,000 3,102 13,102	- - -
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances	93.104	5 U79 SM56051-04-05 5 U79 SM56051-04-01	506,018 464,717 970,735	452,866 405,687 858,553
Head Start	93.600	09CH9006/34-36 09CH9006/37 09CH9006/08-09	171,520 1,505,102 11,668,791	- 624,997 2,504,097
Early HeadStart	93.600	09CH9006/07-08	2,067,423 15,412,836	1,992,806 5,121,900
Passed Through the State of California Department of Economic Opportunity: National Family Caregiver Support, Title III, Part E	93.052	Agreement	13,980	-
Passed Through the State of California Department of Community Service and Development: Community Services Block Grant	93.569	06F-4703 08F-4903	279,732 442,609 722,341	110,498 212,224 322,722
Passed Through the State of California Department of Aging: Medical Assistance Program (Medicaid)	93.778	MS-0708 MS-0809	57,420 1,480,409 1,537,829	- 221,180 221,180
<b>TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			<b>18,670,823</b>	<b>6,524,355</b>
<b>U.S. CORPORATION FOR NATIONAL AND COMMUNITY SERVICES</b>				
Foster Grandparent/Senior Companion Cluster: Foster Grandparent Program Senior Companion Program	94.011 94.016	06SFPC009 06SCPCA005	26,131 294,670	- -
<b>TOTAL U.S. CORPORATION FOR NATIONAL AND COMMUNITY SERVICES</b>			<b>320,801</b>	<b>-</b>

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

**CITY OF OAKLAND  
SCHEDULE OF EXPENDITURES OF  
FEDERAL AWARDS  
FOR FISCAL YEAR ENDED JUNE 30, 2009**

<b>FEDERAL GRANTOR/PROGRAM TITLE</b>	<b>CFDA Number</b>	<b>Grant Number</b>	<b>Expenditures</b>	<b>Amount Passed-through to SubRecipients</b>
<b>U.S. DEPARTMENT OF HOMELAND SECURITY</b>				
Urban Areas Security Initiative	97.008	2005-15	17,142	-
National Urban Search and Rescue (US&R) Response System	97.025	2005-15	52	-
		EMW-2007-CA-0157	144,412	6,054
		EMW-2006-CA-0198	192,184	-
		USAR Grant-08-09	812,255	148,418
			<u>1,148,903</u>	<u>154,472</u>
Disaster Grants - Public Assistance	97.036			
FEMA 1628 DR OES ID		001-53000	375,106	-
FEMA 1646 DR CA OES ID		001-53000	327,599	-
FEMA OES- 98		01-089	4,703	-
			<u>707,408</u>	<u>-</u>
Assistance To Firefighters Grant	97.044	Agreement	39,681	-
Homeland Security Cluster:				
Community Emergency Response Team	97.004	2004-45OESID#001000000	59,333	-
Homeland Security Grant Program	97.067	006-0071	2,208,270	12,500
			<u>2,267,603</u>	<u>12,500</u>
Metropolitan Medical Response System	97.071	EMW-2004-GR-0606	1,467	-
<b>TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY</b>			<u><b>4,182,204</b></u>	<u><b>166,972</b></u>
<b>TOTAL FEDERAL AWARDS</b>			<u><b>\$ 67,451,810</b></u>	<u><b>\$ 22,414,282</b></u>

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

**CITY OF OAKLAND**  
Notes to the Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2009

**Note 1 – General**

The accompanying schedule of expenditures of federal awards (SEFA) presents the expenditures of all federal award programs of the City of Oakland, California (City) for the year ended June 30, 2009, except as described in Note 4 below. The City's reporting entity is defined in Note 1 to the City's basic financial statements. All federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the SEFA.

**Note 2 – Basis of Accounting**

The accompanying SEFA is presented using the modified accrual basis of accounting for grants as described in Note 2 to the City's basic financial statements.

**Note 3 – Relationship to the Financial Statements**

Expenditures of federal awards are reported in the City's basic financial statements as expenditures in the general and special revenue funds.

**Note 4 – Federal Expenditures of the Port of Oakland not included in the SEFA**

The Port of Oakland's (Port) federal expenditures are excluded from the SEFA because such expenditures are reported separately. Expenditures for the programs of the Port listed below are taken from the separate single audit report. The programs of the Port are as follows:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
<b>Department of Defense</b>		
Environmental Services Cooperative Agreement - passed through from the Oakland Base Reuse Authority	12-UNKNOWN	\$ 848,265
<b>Department of Transportation</b>		
Airport Improvement Program	20.106	10,892,164
<b>Department of Homeland Security</b>		
Port Security Grant Program	97.056	<u>883,858</u>
<b>Total Federal Expenditures</b>		<u><u>\$ 12,624,287</u></u>

**CITY OF OAKLAND**  
Notes to the Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2009

**Note 5 – Loans Outstanding**

The City participates in certain federal award programs of the U.S. Department of Housing and Urban Development (HUD) that sponsor revolving loan and loan guarantee programs, which are administered by the City. These programs maintain servicing and trust arrangements with the City to collect loan repayments. These repayments are made available for new loans. Of these revolving loan and loan guarantee programs, the HOME Investment Partnerships Program (CFDA No. 14.239) is the only loan program with continuing compliance requirements. The outstanding loans receivable balance at June 30, 2009 for this program is \$54,654,468.

**CITY OF OAKLAND**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2009**

**Section I – Summary of Auditor’s Results**

**Financial Statements:**

Type of auditor’s report issued:	Unqualified
Internal control over financial reporting:	
• Material weaknesses identified?	Yes
• Significant deficiencies identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

**Federal Awards:**

Internal control over major programs:	
• Material weaknesses identified?	No
• Significant deficiencies identified that are not considered to be material weaknesses?	Yes
Type of auditor’s report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	Yes

**Identification of major programs:**

<u>CFDA Number</u>	<u>Program name</u>
14.239	HOME Investment Partnerships Program
14.248	Community Development Block Grants/Section 108 Loan Guarantees
17.235	Senior Community Services Employment Program
17.258/17.259/17.260	WIA Cluster
93.104	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances
93.600	Head Start
93.778	Medical Assistance Program (Medicaid)
97.025	National Urban Search and Rescue Response System

Dollar threshold used to distinguish between Type A and Type B programs:	\$2,023,554
Auditee qualified as low-risk auditee?	No

**CITY OF OAKLAND**  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2009

**Section II – Financial Statement Findings**

**Comment No. 2009-1 – Material Weakness**  
**Internal Service Fund Deficits**

Governments often use internal service funds to centralize certain services and then allocate the costs of those services within the government. U.S. generally accepted accounting principles (GAAP) permit the use of internal service funds to report any activity that provides goods or services to the government on a cost-reimbursement basis. That is, the goal of an internal service fund should be to measure the full cost (including cost of capital assets) of providing goods or services for the purpose of fully recovering that cost through fees or charges. Accumulating significant deficits or excess net assets are indicative of the internal service activity not being operated on a cost-reimbursement basis. Under such circumstances, it may no longer be appropriate to report the activity in an internal service fund under GAAP.

The City has not set user fees to recover the full cost of services. Due to the deficiency in charges for services, the internal service funds have essentially borrowed monies from the General Fund in order to maintain operations. While the City made an improvement in the Equipment Fund, reducing its deficit by more than half, the deficit increased in the Facilities and Central Stores Funds. The overall net assets deficit of internal service funds grew by \$3.1 million and the overall borrowings from the General Fund grew by \$1.7 million.

The City has acknowledged this matter as significant and has made an effort to take corrective measures. The City prepared a “rebalancing plan” for its internal service funds, which was first adopted for the fiscal year 2005-07 policy budget, which attempted to cure the internal service fund deficit by fiscal year 2014-15. However, the rebalancing plans put in place in fiscal years 2006 and 2007 were not followed correctly due to the lack of general fund resources to make the required annual payments. As such, the City restructured its rebalancing plan as part of the recently adopted fiscal year 2009-11 budget. This newly restructured rebalancing plan has been modified to cure the net assets deficit of internal service funds by fiscal year 2018-19. In addition, the City adopted a financial policy that requires one-half of any one-time revenues received to be used specifically to reduce the net assets deficit of internal service funds.

The need for the City to restructure its initial rebalancing plan, and in light of current economic pressures affecting the City, brings into question its ability to manage its internal service funds on a cost-reimbursement basis, as its accumulated borrowings have reached \$50.8 million as of June 30, 2009. We recommend that the City monitor the progress of its restructured rebalancing plan very closely to ensure its feasibility. If it is determined that the plan is not feasible and that the City does not intend to or cannot recover the full cost of providing goods or services within a reasonable period of time, then the use of internal service funds is no longer appropriate under GAAP and should not be used for financial reporting purposes.

*Management Response:*

During the 2009-11 budget, the City revised the repayment plan for the internal service funds to eliminate the funds net asset deficit by 2018-19. In addition, the City adopted a financial policy during the 2009-11 budget that requires half of one-time revenues received to be used specifically to reduce the net assets deficits of internal service funds. Receipt of such one-time assets – and their subsequent deposit into the internal service funds, as required by the financial policies and barring any fiscal emergencies – will, in essence, expedite the “repayment” of the negative internal service balances.

It is management’s intent to take every step possible to ensure such an expedited repayment, in advance of FY 2018-19. Currently, the City is reviewing all of its surplus real estate assets to determine the feasibility of sale in the next one to three years.

**CITY OF OAKLAND**  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2009

**Section III Federal Award Findings and Questioned Costs**

**Item No. 2009-2**

**Reporting – Lack of Submission of Monthly Written Statements**  
Community Development Block Grants / Section 108 Loan Guarantees  
(CFDA#14.248)  
U.S. Department of Housing and Urban Development

*Criteria:*

During our review of the *Contract for Loan Guarantee Assistance Under Section 108 of the Housing and Community Development Act of 1974, as Amended, 42 U.S.C Section 5308* (Loan Contract), we noted a reporting requirement for accounts with the City of Oakland for the Section 108 Loan Guarantee Program (Section 108 Loans). Per paragraphs 1(b) and 6(b) of the Loan Contract, the City of Oakland (City) is required by the fifteenth day of each month to provide the Secretary of Housing and Urban Development (Secretary) with a written statement showing the balance of funds in the Guaranteed Loan Funds Investment Account and the Loan Repayment Account and the deposits and withdrawals from such accounts during the preceding calendar month and a statement identifying the obligations and their assignments in the Guaranteed Loan Funds Investment Account and the Loan Repayment Account.

*Condition:*

The City has not submitted the monthly written statements during fiscal year 2009 as required by the Loan Contract, which demonstrates a lack of internal control over reporting requirements.

*Questioned costs:*

There are no questioned costs associated with this finding.

*Recommendation:*

We recommend that the City implement internal controls over the monthly preparation and review and approval of the written statement required by the Loan Contract. As part of the implementation of the internal controls, the City should identify qualified individuals to be responsible for the preparation and review and approval processes.

*Management response:*

This non-compliance issue was addressed by a response from the U.S. Department of Housing and Urban Development (HUD) as a result and/or finding from HUD's program monitoring visit of the City's Section 108 Loan Guarantee and Economic Development Initiative grants on November 18, 2009, a copy of which was provided to the external auditor.

As a result of this finding, the Commercial Lending Unit, with the assistance of the Community Economic Development Agency's (CEDA) fiscal staff, has implemented a procedure to report assurances and documentation that by the fifteenth day of each month, the City will provide a written statement to HUD's San Francisco Regional Office showing a balance of funds in the Guaranteed Loan Funds Accounts and the withdrawals from such accounts during the preceding calendar month, and if applicable, will report a statement identifying the obligations and their assignments in the Guaranteed Loan Funds Investment Accounts. Our first statement will be completed prior to January 15, 2010.



**CITY OF OAKLAND**  
**Summary Schedule of Prior Audit Findings**  
**For the Year Ended June 30, 2009**

Reference Number: 2007-B

Audit Finding: The City reports five internal service funds, Equipment, Radio, Facilities, Reproduction and Central Stores. Governments often use internal service funds to centralize certain services and then allocate the costs of those services within the government. U.S. generally accepted accounting principles permit the use of internal service funds to be used to report any activity that provides goods or services to the government on a cost reimbursement basis. That is, the goal of an internal service fund should be to measure the full cost (including cost of capital assets) of providing goods or services for the purpose of fully recovering that cost through fees or charges. Therefore, if the City does not intend to recover the full cost of providing goods or services, then the use of internal service funds would not be appropriate.

As discussed during the last two years, we are becoming increasingly concerned with the growth in both the deficits of certain internal service funds and the interfund loans used to support those services. The City has attempted to cure the internal service fund deficits by increasing the charges to the departments; however, those increases have not kept up with the increases in actual costs. Therefore, we recommended the City review its current budget repayment plan and revise it to cure the deficit over a reasonable period of time, such as three to five years.

The City's response was to maintain the current rebalancing plan for internal service funds in its adopted the FY 2007-09 policy budget, which cures the deficits by FY 2014-15.

Status of Corrective Action: The position of the City's internal service funds continued to deteriorate, and the rebalancing plan has been restructured. See current year finding at 2009-01.

Reference Number: 2008-A

Audit Finding: We were unable to complete our documentation of internal controls over sewer service revenues, as we were unable to meet with Community and Economic Development Agency (CEDA) staff. While we were able to document certain controls, such as the development of user rates and recording of receipts from East Bay Municipal Utility District (EBMUD), we were not able to determine whether the City has adequate controls over the monitoring of EBMUD services. Due to a lack of cooperation by CEDA, we assumed that controls and control documentation did not exist. Therefore, internal controls over the collection of sewer service revenues was considered a material weakness, as we were unable to determine the adequacy of internal controls and whether or not they were operating effectively. We were able to mitigate this audit risk by conducting substantive procedures, which included confirming cash receipts with EBMUD and application of analytical procedures.

**CITY OF OAKLAND**  
**Summary Schedule of Prior Audit Findings**  
**For the Year Ended June 30, 2009**

During our substantive procedures, we determined that the City did not have an adequate understanding of the EBMUD collection process and the timing of remittances to the City.

We recommended that the City document its internal controls over sewer service revenues, which included (1) performing risk assessments; (2) establishing controls, such as monitoring the billing and collecting activities performed by EBMUD; (3) establishing proper communication within the City Departments; and (4) establishing accrual procedures at year-end that capture all billed receivables and a basis for estimating the unbilled receivables.

**Status of Corrective Action:** Management held a meeting among CEDA, the Public Works Agency, and the Finance and Management Agency to identify the most appropriate way to monitor the sewer system revenues collected by EBMUD on behalf of the City. The inter-agency meeting resulted in a monitoring process that was implemented during fiscal year 2008-09.

This has been implemented.

**Reference Number:** 2008-B

**Audit Finding:** During our review of the Oakland Police and Fire Retirement System (PFRS) financial statements for the year ended June 30, 2008, we noticed a change in reporting of actuarial information. The FY2008 PFRS report disclosed a six-year trend of actuarial required contribution (ARC) requirements in its required supplementary information, which had previously been reported as zero in past PFRS reports.

Upon further investigation, it was determined that the past PFRS reports were incorrect and that there has been past ARC requirements for the City which were not communicated or considered in its calculation of the net pension asset on the statement of net assets of its governmental activities. The net pension asset is the result of City contribution to PFRS that exceeded the actuarially determined annual required contribution, which originated from the bond proceeds of the 1997 Pension Obligation Bonds. This amount should then be amortized along with impact of subsequent annual ARC requirements to recognize the effects of excess/deficient contributions as pension costs over time.

We recommended going forward that the City's Finance and Management Agency accounting and retirement staff work with the PFRS actuary to calculate the annual pension cost and changes to net pension assets.

**Status of Corrective Action:** This has been implemented.

**CITY OF OAKLAND**  
**SUPPLEMENTAL SCHEDULE OF REVENUE AND EXPENDITURES**  
**STATE OF CALIFORNIA DEPARTMENT OF COMMUNITY SERVICE AND DEVELOPMENT (CSD)**  
**COMMUNITY SERVICE BLOCK GRANT (CSBG)-CFDA NO. 93.569**  
**CONTRACT NO. 08F-4903, PROJECT NO. G309110/20**  
**For the Period January 1, 2008 to June 30, 2009**

	Jan. 1, 2008 through June 30, 2008	July 1, 2008 through Dec. 31, 2008	Jan. 1, 2009 through June 30, 2009	Total Actual	Total Reported <sup>1</sup>	Total Budget
<b>Revenue</b>						
Grant Amount	\$ 167,508	\$ 220,698	\$ 155,034	\$ 543,240	\$ 155,034	\$ 670,032
Interest Income	-	-	-	-	-	-
<b>Total Revenue</b>	<u>\$ 167,508</u>	<u>\$ 220,698</u>	<u>\$ 155,034</u>	<u>\$ 543,240</u>	<u>\$ 155,034</u>	<u>\$ 670,032</u>
<b>Expenditures</b>						
Personnel Costs:						
Salaries and Wages	\$ 100,759	\$ 94,931	\$ 11,820	\$ 207,510	\$ 177,975	\$ 196,375
Fringe Benefits	54,536	56,177	7,047	117,760	102,543	86,847
<b>Subtotal Personnel Costs</b>	<u>155,295</u>	<u>151,108</u>	<u>18,867</u>	<u>325,270</u>	<u>280,518</u>	<u>283,222</u>
Non-Personnel Costs:						
Travel	4,708	8,800	-1,454	12,054	15,837	11,857
Consumable Supplies	447	1,562	8,531	10,540	3,066	28,230
Equipment Lease/Purchase	-	249	-	249	-	-
Consultant Services	-	-	-	-	-	-
Sub-Contractors	60,709	121,610	90,614	272,933	323,804	330,155
Other Costs	8,264	6,292	36,431	50,987	25,684	16,568
<b>Subtotal Non-Personnel Costs</b>	<u>74,128</u>	<u>138,513</u>	<u>134,122</u>	<u>346,763</u>	<u>368,391</u>	<u>386,810</u>
<b>Total Expenditures</b>	<u>\$ 229,423</u>	<u>\$ 289,621</u>	<u>\$ 152,989</u>	<u>\$ 672,033</u>	<u>\$ 648,909</u>	<u>\$ 670,032</u>

<sup>1</sup> -The reported column represents expenditures reported to the State of California Department of Community Services and Development for the period January 1, 2008 to June 30, 2009.

**CITY OF OAKLAND**  
**SUPPLEMENTAL SCHEDULE OF REVENUE AND EXPENDITURES**  
**STATE OF CALIFORNIA DEPARTMENT OF COMMUNITY SERVICE AND DEVELOPMENT (CSD)**  
**COMMUNITY SERVICE BLOCK GRANT (CSBG)-CFDA NO. 93.569**  
**CONTRACT NO. 06F-4703, PROJECT NO. G311310/20**  
**For the Period January 1, 2009 to June 30, 2009**

	<u>Actual</u>	<u>Total Reported <sup>1</sup></u>	<u>Total Budget</u>
<b>Revenue</b>			
Grant Amount	\$ 150,786	\$ 150,786	\$ 718,454
Interest Income	-	-	-
<b>Total Revenue</b>	<u>\$ 150,786</u>	<u>\$ 150,786</u>	<u>\$ 718,454</u>
<b>Expenditures</b>			
Personnel Costs:			
Salaries and Wages	\$ 93,152	\$ 93,008	\$ 171,358
Fringe Benefits	5,687	56,867	106,500
Subtotal Personnel Costs	<u>98,839</u>	<u>149,875</u>	<u>277,858</u>
Non-Personnel Costs			
Travel	9	1,983	15,000
Consumable Supplies	1,327	1,357	3,500
Equipment Lease/Purchase	-	-	-
Consultant Services	-	-	-
Sub-Contractors	110,498	121,939	389,056
Other Costs	17,881	4,578	33,040
Subtotal Non-Personnel Costs	<u>129,715</u>	<u>129,857</u>	<u>440,596</u>
<b>Total Expenditures</b>	<u>\$ 228,554</u>	<u>\$ 279,732</u>	<u>\$ 718,454</u>

<sup>1</sup> - The reported column represents expenditures reported to the State of California Department of Community Services and Development for the period January 1, 2009 to June 30, 2009.

**CITY OF OAKLAND**  
**SUPPLEMENTAL SCHEDULE OF EXPENDITURES OF**  
**ALAMEDA COUNTY AWARDS**  
**For the year ended June 30, 2009**

<u>ALAMEDA COUNTY AWARD/PROGRAM TITLE</u>	<u>CONTRACT NUMBER</u>	<u>EXHIBIT/PO NUMBER</u>	<u>EXPENDITURES</u>
<b>DEPARTMENT OF ADULT &amp; AGING SERVICES</b>			
Senior Companion Program	SOCSA-900163	SE08-141	\$ 19,554
Linkages/Respite	SOCSA-900163	SE08-140	214,508
Information and Assistance	SOCSA-900163	SE06-148	42,629
<b>TOTAL DEPARTMENT OF ADULT &amp; AGING SERVICES</b>			<u>276,691</u>
<b>HOUSING &amp; COMMUNITY DEVELOPMENT DEPARTMENT</b>			
Winter Shelter Program	C-2335/3621	200.905.992	114,890
<b>TOTAL HOUSING &amp; COMMUNITY DEVELOPMENT DEPARTMENT</b>			<u>114,890</u>
<b>HEALTH CARE SERVICES AGENCY</b>			
Target Case Management	MOU	95-010	117,350
<b>TOTAL HEALTH CARE SERVICES AGENCY</b>			<u>117,350</u>
<b>PUBLIC HEALTH DEPARTMENT</b>			
Tobacco Control Program	CONTRACT	PHSVC-3526	2,370
Tobacco Control Program	CONTRACT	PHSVC-4305	10,000
<b>TOTAL PUBLIC HEALTH DEPARTMENT</b>			<u>12,370</u>
<b>DEPARTMENT OF WORKFORCE &amp; BENEFITS ADMINISTRATION</b>			
Henry J. Robinson Multi-Service Center	SOCSA-7418	C-2879	241,444
<b>TOTAL DEPARTMENT OF WORKFORCE &amp; BENEFITS ADMINISTRATION</b>			<u>241,444</u>
<b>TOTAL ALAMEDA COUNTY AWARDS</b>			<u>\$ 762,745</u>

